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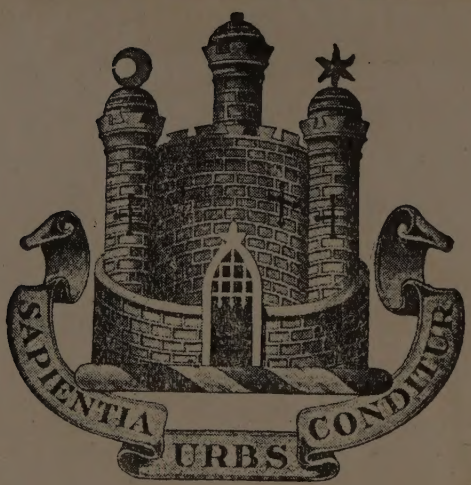

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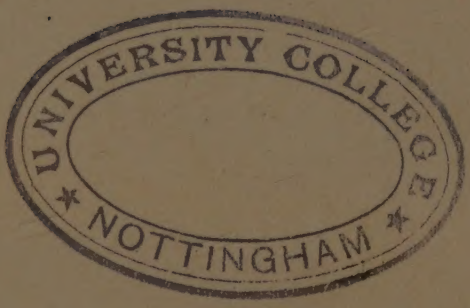

SELECT STATUTES DOCUMENTS & REPORTS RELATING TO BRITISH BANKING, 1832–1928

THE BANK AND MANSION HOUSE, KING WILLIAM STREET, 1850

SELECT STATUTES DOCUMENTS & REPORTS RELATING TO BRITISH BANKING, 1832–1928

SELECTED
WITH AN INTRODUCTION
BY T. E. GREGORY
SIR E. CASSEL PROFESSOR OF
BANKING AND CURRENCY IN
THE UNIVERSITY OF
LONDON

VOLUME II

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PART II

THE BANK OF ENGLAND AFTER THE BANK ACT OF 1844

THE CRISIS OF 1847

THE PETITION OF THE MERCHANTS, BANKERS, AND TRADERS OF LONDON, AGAINST THE BANK CHARTER ACT; 13th JULY 1847.

(*See* Lord Overstone's *Tracts on Metallic and Paper Currency, 1837–57.*

TO THE HONOURABLE THE COMMONS OF THE UNITED KINGDOM, IN PARLIAMENT ASSEMBLED.

The humble Petition of the undersigned Merchants, Bankers, and Traders of London.

Showeth,

1. That there has lately been apparent throughout the commercial and manufacturing community of this country an extent of monetary pressure, such as is without precedent in the memory of the oldest living merchant.

2. That this pressure has manifested itself in the fact of the suspension of the ordinary facilities of business—such as the discounting legitimate commercial bills of unquestionable credit and solvency, and the with-holding other ordinary monetary accommodation.

3. That this pressure has come upon the commercial body at a time when there has been no undue extension of the ordinary commerce of the country, nor any spirit of speculation or over-trading afloat, so far as the trading interest is concerned.

4. That the deficient harvest of last year occasioned the withdrawal from the Bank of England of a considerable portion of its bullion, to pay for imports of food from foreign parts.

5. That in former periods of the like visitation, the Bank of England has had the power, and has safely used it, of continuing facilities to commerce during the temporary pressure arising from a large and sudden importation of food from foreign countries until the balance of trade should be restored by the ordinary course of commercial pursuits.

6. That to suppose that by any monetary regulation it should be practicable to produce an increased demand for British exports,

simultaneously with the necessity for British imports of grain, so that the one may be at the moment available in payment for the other, is at variance with the course of all mercantile experience.

7. That it is in the nature of mercantile dealings, when duly supported, to rectify, within a reasonable time, any temporary inequality which temporarily disturbing causes may produce; on which account it is essential that the power of giving temporary aid, if called for by the mercantile body at such periods of emergency, should exist.

8. That it has recently become apparent, that the Bank of England is restrained by legislative enactment from giving such facility, if called for.

9. That the establishment has been compelled, by the operation of the existing law, to refuse discounting commercial bills of the first credit, having not more than three months to run.

10. That the fact of such refusal, together with the knowledge of the ground on which it was made, produced such a degree of consternation and disturbance of public confidence throughout the country, that commercial bills could only be discounted at all to a very limited extent, and at rates of interest hitherto unknown in this country.

11. That one consequence of this state of things was an immediate suspension of the execution of orders for manufactures for distant markets to the great distress of the manufacturing districts, at the very moment when there was an obvious policy in facilitating exports of British production.

12. That this suspension continues to the present moment to a large extent, and to the great injury of the manufacturing population.

13. That without detailing to your Honourable House all the cases of difficulty, and perplexity, and paralyzation of business, resulting from such a state of things, your petitioners venture broadly to state, that the existing commerce of this country cannot be carried on, if the continuance of the facility of discounting legitimate commercial bills be practically withdrawn.

14. Your petitioners can hardly bring to the notice of your Honourable House a more palpable view of the extent of embarrassment recently existing, than in the following plain statement

of facts, both occurring in the same week. Remittances of silver arrived from the Pacific in payment for British manufactures. The Bank of England refused either to buy or to lend money on this silver to the merchants who received it, stating that it held the full amount of silver bullion on which by law it was permitted to issue notes, and that it could take no more. Thus merchants, with silver in their possession, could not obtain bank notes to meet their engagements.

15. It further occurred, that a banking establishment at some distance from the metropolis, having an accumulation of silver of the coin of this realm beyond its ordinary need, tendered the same to the Bank of England, to be exchanged for bank notes. The Bank refused to receive it, stating, as in the former case, that it did not possess the power to issue bank notes on a larger amount of silver than it already held.

16. Your petitioners submit to your Honourable House the unavoidable inference from all the facts they have set forth, that the present state of the law has not answered the purpose for which it was intended. From the time of its being passed it has been practically inoperative, until a great public calamity arises, and then, instead of sustaining public confidence—the vital element of a commercial body—it is found to shake it to its centre. And yet during the whole period of this remarkable pressure, the Bank of England has had more than nine millions of bullion in its possession.

17. Your petitioners are no advocates for an inconvertible paper currency, but they are humbly of opinion that if the Bank Charter Act had contained a relaxing power, lodged in the Executive Government, to be used—not in relief of commercial improvidence or indiscretion—but in the case of some great emergency, such as a short supply of food, or the occurrence of any great political crisis, the Bank of England would neither have been compelled to have recourse to the restrictive measures it has adopted, nor in all probability would any disturbance of public confidence have taken place.

18. Your petitioners believe that the knowledge of the existence of such a power in the hands of the Government, would of itself at all times prevent that destruction of confidence which is in

itself the greatest evil that can befal a commercial community; always aggravating in a fearful degree whatever mischief may exist, and contracting all monetary facilities at the very moment when they are most needed.

19. Your petitioners are further humbly of opinion that, considering that silver is the standard of currency in nearly every state in Europe, and in most other parts of the civilized world, and constitutes in itself, therefore, a substantial and convertible security—it is wholly inexpedient to deprive the Bank of England of the power of issuing bank notes on the deposit of that metal to any extent it may think proper, while it retains its responsibility to pay its notes in gold.

20. Your petitioners are aware that the recent monetary pressure has been sometimes attributed to the large outlay which has taken place in the construction of railways in this country.

21. Your petitioners are not called on to offer any opinion on this question, the commercial community being no way responsible for the extent of that outlay. They would only, as a matter of fact, remark, that whatever may have been the amount of outlay on these works, there was no considerable advance in the rate of interest, nor did any monetary pressure arise, until other causes came into operation.

22. Your petitioners cannot omit to represent to your Honourable House the existence of one additional element in the recent pressure, of no inconsiderable force, the demand made by the Queen's Exchequer on the Bank of England, for assistance to meet the engagements of the Government. It humbly appears to your petitioners, that the power of the Bank to issue notes being strictly limited by law, a great hardship is inflicted on the commercial community when the Bank is compelled, by the wants of Government, forcibly to diminish the accommodation it would otherwise be enabled to afford to that body, and this too, at a time when the Bank is called upon, by causes of peculiar urgency, to enlarge such accommodation to the utmost extent of its ability. Your petitioners humbly, but earnestly, suggest to the consideration of your Honourable House, that this powerfully disadvantageous action on the resources of the Bank ought not to be allowed to continue, without countervailing means being provided to meet it.

23. Your petitioners further desire to represent to your Honourable House, that although the pressure of which they have been speaking is now partially relieved, confidence is not restored, and the rate of interest on commercial bills is still unusually and injuriously high. And your petitioners feel bound to state, that in the event of any new cause of alarm arising, there is every ground for believing, while the law remains in its present state, that a pressure equally or still more severe may return, with consequences not easily foreseen, and when the House of Parliament may not be sitting to mitigate their severity.

Your petitioners, with all humility, submit the foregoing considerations, affecting as they do, in a national sense, very large and extended interests, to your Honourable House; and they pray

That your Honourable House will be pleased to consider the expediency of so amending the Bank Charter Act, that a relaxing power may be lodged in the hands of the executive Government, and that the Bank may be permitted to issue notes on silver bullion without restriction.

And your petitioners, as in duty bound, will ever pray, &c.

TREASURY LETTER RELAXING THE BANK ACT AND REPLY OF THE BANK

Treasury Letter, 25th October 1847.

(Parliamentary Papers, 1847–8, vol. viii, part iii. Section II of the Report of the Secret Committee of the House of Lords on the Commercial Distress.)

Downing Street, 25th October 1847.

Gentlemen,

Her Majesty's Government have seen with the deepest Regret the Pressure which has existed for some Weeks upon the commercial Interests of the Country, and that this Pressure has been aggravated by a Want of that Confidence which is necessary for carrying on the ordinary Dealings of Trade.

They have been in hopes that the Check given to Transactions of a speculative Character, the Transfer of Capital from other Countries, the Influx of Bullion, and the Feeling which a Knowledge of these Circumstances might have been expected to produce, would have removed the prevailing Distrust.

They were encouraged in this Expectation by the speedy Cessation of a similar State of Feeling in the Month of April last.

These Hopes have, however, been disappointed, and Her Majesty's Government have come to the Conclusion, that the Time has arrived when they ought to attempt, by some extraordinary and temporary Measure, to restore Confidence to the mercantile and manufacturing Community.

For this Purpose, they recommend to the Directors of the Bank of England, in the present Emergency, to enlarge the Amount of their Discounts and Advances upon approved Security; but that, in order to retain this Operation within reasonable Limits, a high Rate of Interest should be charged.

In present Circumstances, they would suggest that the Rate of Interest should not be less than Eight per Cent.

If this Course should lead to any Infringement of the existing Law, Her Majesty's Government will be prepared to propose to Parliament, on its Meeting, a Bill of Indemnity. They will rely upon the Discretion of the Directors to reduce as soon as possible the Amount of their Notes, if any extraordinary Issue should take place, within the Limits prescribed by Law.

Her Majesty's Government are of opinion that any extra Profit derived from this Measure should be carried to the Account of the Public, but the precise Mode of doing so must be left to future Arrangement.

Her Majesty's Government are not insensible of the Evil of any Departure from the Law which has placed the Currency of this Country upon a sound Basis; but they feel confident, that, in the present Circumstances, the Measure which they have proposed may be safely adopted, and at the same Time the main Provisions of that Law, and the vital Principle of preserving the Convertibility of the Bank Note, may be firmly maintained.

We have the Honour to be, Gentlemen,
Your obedient humble Servants,
(Signed) J. RUSSELL.
CHARLES WOOD.

The Governor and Deputy Governor
of the Bank of England.

REPLY

Bank of England, 25th October 1847.

GENTLEMEN,

We have the honour to acknowledge your letter of this day's date, which we have submitted to the Court of Directors and we enclose a copy of the resolutions thereon; and

We have the honour to be, Sirs,
Your most obedient servants,
(Signed) JAMES MORRIS, *Governor.*
H. J. PRESCOTT, *Deputy Governor.*

To the First Lord of the Treasury and the Chancellor of the Exchequer.

Resolved, That this Court do accede to the recommendation contained in the letter from the First Lord of the Treasury and the Chancellor of the Exchequer, dated this day, and addressed to the Governor and Deputy Governor of the Bank of England, which has just been read:

That the minimum rate of discount on bills not having more than ninety-five days to run be 8 per cent:

That advances be made on bills of exchange, on stock, Exchequer bills, and other approved securities, in sums of not less than £2,000 and for periods to be fixed by the Governors, at the rate of 8 per cent. per annum.

EVIDENCE OF THE GOVERNOR AND DEPUTY GOVERNOR OF THE BANK OF ENGLAND BEFORE THE SECRET COMMITTEE OF THE HOUSE OF LORDS ON THE COMMERCIAL DISTRESS. (7th FEBRUARY 1848.) The LORD PRESIDENT in the Chair.

(Parliamentary Papers, 1847–8, vol. viii, part iii.)

JAMES MORRIS, Esq., Governor of the Bank of England, and

HENRY JAMES PRESCOTT, Esq., Deputy Governor of the Bank of England, examined.

38. Is it not clear that when you came to the Period of October

1847, the Time of the greatest Pressure, it was found that the Act did not answer its Purpose, but that it put you into Difficulties though you had Bullion to the Amount of Eight Millions and a Half, and that, in point of fact, either the Government or the Bank, or some Party or other, thought it was necessary to suspend the Action of this Law altogether, so that when the Moment of Pinch came it was determined that this very perfect Law, as you have called it, must be suspended, or that the Bank might be in danger of not being able to pay its Engagements?—No. I cannot allow that the Bank was in any danger of suspending its Payments. I will take the Reserve as it read upon the Friday Night previous to the Letter being issued on the Monday. I do not take the Saturday, because we were then acting under the expected Issue of the Letter. The Bank Reserve at that Period, the Friday, was £2,376,000. We should have had no Difficulty whatever in meeting all our Liabilities. We should not have been able to give the same Extent of Accommodation that Parties were requiring from us. Parties came and thought they had only to ask for Money and they would have it at once. We might have put into the Account a considerable Amount by selling Consols. We had going off weekly Bills to the Extent of £1,500,000, so that by discounting even at the Rate of £100,000 a Day to give the Public some Accommodation our Reserve would still have increased at the Rate of £900,000 a Week. It is certain that in a very short Period we should have had as large a Reserve as would be necessary for our Purposes, and therefore I maintain that the Bank was never at any Period in Jeopardy. Upon that Subject I may read a Minute which was passed by the Court on receiving the Government Letter, when they agreed to act upon it in conformity with the Wish of the Government.

39. Was there any Minute of the Court previous to issuing the Government Letter?—No.

40. The Letter was not asked for by the Court?—Decidedly not. The Minute is as follows: 'At a Court of Directors at the Bank 'on Monday the 25th of October 1847, Resolved.—That this 'Court desires to record its Opinion that no Deviation from the 'Provisions of the Act of 1844 regulating the Currency is required

'in consequence of any Difficulties on the Part of this Corporation, but they consent to the Measure recommended by Her 'Majesty's Government upon the Grounds of Public Necessity, 'urged by the First Lord of the Treasury and the Chancellor of 'the Exchequer.' This Resolution was passed at the same Court at which I communicated the Letter of the Government, and we recorded this as an Opinion that it was not necessary for our own Protection.

41. Do you mean to say that the Government sent you down that Letter without any communication with the Bank,—without ascertaining, either by Conference or otherwise, whether the Bank thought that a Suspension of the Act of 1844 was advisable?—I think I stated that we had already communicated with the Government on Saturday. On Saturday we were given to understand what was to take place on Monday. The Letter came down on Monday. But either the Deputy Governor or myself, or some of the Committee of Treasury, were in constant Communication with the Government upon this Subject. The Question was put to me over and over again whether we were able to take care of the Bank. I always stated that, so far as the Bank itself was concerned, we had no Difficulty; but that, whether Her Majesty's Government might have any political Reasons, such as the Fear of Mills being stopped, or Riots in the Country, was a Question for them to decide, and one which we could not answer.

42. When you say the Bank had no Difficulty, you mean that the Bank, if it would put an additional Pressure upon the general Circulation of the Country, might relieve itself?—What I mean to state is, that the Bank would have been able to give fair Accommodation to the Public without injuring itself; that we had about a Million and a Half of Bills which were going off weekly, which was a very large Amount; that if the Bank continued its Discount to the Extent of Seven or Eight hundred thousand Pounds a Week we should still have been adding considerably to our Reserve.

. . . . . .

46. You are not aware of any Threat or any Disposition on the Part of Bankers and other Persons who are strongly impressed

with the Impolicy of the present System of Management of the Bank to use their private Deposits for the Purpose of showing you the Danger in which you were placed, and forcing either the Government or the Bank to some Change in the working of the Law?—Certainly not.

. . . . . .

48. But supposing that through any Circumstance whatever the private Depositors had called for Two Millions, and had merely made an Alteration in the Amount of your Deposits which actually existed before on the 4th of September, if they had so called upon you you would not have been able to pay them?—If they had put off the Demand till Four o'Clock in the Evening and taken us by Surprise they certainly might have drawn out the Two Million; but if they had commenced with the ordinary Transactions of the Day, as they took the Deposits out, we, seeing the Reserve going down, would have got Notes out of the Market by the Sale of our Securities.

49. Do you mean by the Sale of Public Stock?—Consols.

50. Supposing the Pressure came upon you in the Morning, do you think that either it would have been decent as it respects the Effect upon public Credit for the Bank to be hurrying out with a Million or a Million and a Half or Two Million of Consols to sell for the Purpose of meeting its Engagements, or that even though that Course in Theory might have been right it could practically have been executed?—That is putting a Question to me which is extremely difficult to answer, but I should consider it my Duty as Governor of the Bank, if the Bank were placed in a State of Jeopardy, to realize our Securities to any Amount for the Purpose of keeping our Engagements with the Depositors. I was inquiring To-day of the Broker who does the Bank Business, and he stated that a very considerable Amount of Consols might have been sold at any Period with a very slight Depreciation in the Price.

51. Payable the same Day?—Payable the same Day. The Circumstance of such a very large Amount of Notes going out by the Withdrawal of Deposits assumed in the Question would have

given Notes in the Market for the purpose of being exchanged against our Consols.

52. Then are the Committee to understand that you think that the Interference on the Part of the Government by the Issue of that Letter, virtually stopping the Operation of the Law of 1844, was unwise and wrong?—I am not prepared to answer that Question. There is no Doubt that it produced the Effect of stopping the Panic. Whether the Panic might not have been stopped and righted without the Letter being issued, and what the Result might then have been, I am not prepared to say. I am not prepared to say that it was a Measure to which the Government ought to have resorted; at the same Time it produced the Effect which they contemplated.

53. It removed the Distress?—It restored Confidence.

EVIDENCE OF THE GOVERNOR AND DEPUTY GOVERNOR OF THE BANK OF ENGLAND BEFORE THE SECRET COMMITTEE OF THE HOUSE OF COMMONS ON THE COMMERCIAL DISTRESS. (7th MARCH 1848.)

The Right Hon. F. T. Baring in the Chair.

(Parliamentary Papers, 1847–8, vol. viii, part i.)

James Morris, Esq., Governor of the Bank of England, and Henry James Prescott, Esq., Deputy Governor of the Bank of England; examined.

2637. (*The Chairman*) The first account under that Act was published on August 31st, 1844?—I think it was.

2638. I observe, at that time, the minimum rate of interest, from the return which the Bank has furnished us, appears to have been 4 per cent.?—Yes, it was.

2639. On September the 7th, by the account, it appears that the minimum rate of interest was $2\frac{1}{2}$ per cent.?—Yes, it was.

2640. I believe that a lower rate of interest than ever was charged by the Bank of England before?—Yes.

2641. Will you have the kindness to state upon what grounds the Bank reduced their minimum rate from 4 per cent. to 2½?—Previous to September 1844, the minimum rate of discount charged by the Bank of England was for a long period not less than 4 per cent.; the consequence was, that when money was abundant, and the current rate of interest below 4 per cent., the only means the Bank had of getting out its notes was by the purchase of securities; when the current rate of interest was high, a demand naturally arose for discount at the Bank, and the Bank was then obliged to resort to the sale of securities for the purpose of obtaining notes from the public to meet the demand. This practice of buying securities when money was abundant and the price high, and of selling securities when money was scarce and the price low, caused a loss to the Bank and inconvenience to the money-market which it was desirable to avoid; it was also considered advantageous that a portion of the Bank's deposits should be constantly employed in the discount of bills, and constantly, therefore, under control. It was in consequence determined that in fixing the Bank's rate of discount regard should be paid to the market-rate; the rate in the market at the period when the Bank reduced the rate to 2½ per cent. was 2 per cent. On the 7th September 1844, when the Bank reduced the rate of discount to 2½ per cent., the amount of bullion in the Bank was £15,209,000, the amount of the reserve £9,033,000, and the discounts £2,116,000; the amount of discount in London was £1,113,000, and the rest were country discounts, and discounts for the purpose of circulation; the rate of 2½ per cent. was continued till the 16th October 1845, when 3 per cent. was substituted; the bullion at this period had fallen to £14,190,000, the reserve to £5,937,000, and the discounts had risen to £6,526,000. The low state of the reserve at this period arose partly from the payment of the dividends. On the 6th November in the same year the rate was raised to 3½ per cent., the bullion having fallen to £13,723,000, the reserve being only £5,958,000, and the discounts £7,846,000. In August 1846 the rate of 3 per cent. was restored, the bullion at that time being £16,366,000, the reserve £9,940,000, the discounts having fallen to £6,067,000. On the 14th January 1847, the rate was raised to 3½ per cent., the bullion

being £13,949,000, the reserve £7,269,000, and the discounts, £7,624,000, and on the 21st of the same month the rate was advanced to 4 per cent. On the 8th April the rate was raised to 5 per cent., the bullion having fallen to £9,867,000, and the reserve to £3,464,000; the reduction in the reserve was, however, partly owing to the payment of the dividends; from the 6th to the 23rd April, the Bank borrowed £1,275,000 in Consols, for the purpose of maintaining the reserve; on the 15th of April the Court came to the determination of restricting the amount of discounts for the purpose of strengthening the reserve, which was then only £3,342,116. It was proposed by some members of the Court to discourage the demand for discount by charging a high rate of interest, and 7 per cent. was suggested; but the majority preferred limiting the amount granted to individual accounts. On the 5th of August the minimum rate was raised to 5½ per cent., and on the 25th October, at the recommendation of Government, it was advanced to 8 per cent.

2642. That was under the letter of the Government?—Yes. On the 1st September the amount to the credit of the Exchequer was £6,261,000, of which £2,168,000 had been lent out for periods of not less than 14 days, and not beyond the 16th October, when the dividends became due. At the weekly court of directors of the 2d September, it was decided that it would be expedient to make these loans at a rate of interest of 5 per cent., or one-half per cent. below the then rate of discount. The object of this resolution was to induce the public to take advances in the shape of loans, repayable at or before the period of the dividends, rather than in the form of discounts of bills, which, in many cases, would not become due until after the dividends were paid; nor was this any novelty in the practice of the Bank, which, from the first introduction of the system of temporary loans, has been in the constant habit of making such loans at a rate of interest lower than the rate charged in the discount of bills. By the 30th September, the object of lending out the accumulated Government money had been nearly accomplished, and as on that day the applications for loans were very numerous, amounting, in the aggregate, to £362,600, the rate of interest was raised to 5½ per cent.; but no public notice was issued, nor any step

taken, which committed the Bank to the continuance of such loans, either at that or any other rate. On the 1st of October, the Governors finding the reserve had been diminished on the preceding day by no less a sum than £450,000, and that they could not with prudence make further advances beyond such as the public might call for in the way of discount, and considering moreover, that the object of the Bank had been fully attained, and that the dividends were becoming due within a short period, they put a stop to the further continuance of the operation. These advances, it must be repeated, were made professedly out of the money received on account of the Exchequer; their object was to prevent this money from accumulating in the Bank coffers until the moment arrived when it could be again distributed through the payment of the dividends. These loans amounted, on the 9th October, to £4,544,000, and on the 14th, the day after the payment of the dividends began, they were reduced to £1,507,000; the dividends providing the public with the means of paying the loans, and the payment of the loans enabling the Bank to meet the dividends and maintain their reserve. The loans outstanding after the 16th October were chiefly on bills of exchange, which, owing to the discredit arising from numerous failures, the pressure of railway calls, and other disturbing circumstances, the borrowers were unable to redeem. Most of these loans were renewed at increased rates of interest, and additional loans were made to parties who declared themselves unable to meet their engagements without receiving such assistance from the Bank. The condition of the Bank at the time the Government letter was issued was this: money being extremely scarce, and the bankers and discount-brokers unable to give accommodation to their customers, every one wanting money applied to the Bank; there appeared to be an idea that the Bank was bound to provide the public with notes, without considering that the Bank was limited in its operations, just as any other banking company. The 25th October was the day on which the Government letter was issued; on the 23d October, being in communication with the First Lord of the Treasury and the Chancellor of the Exchequer, we were informed that it was the intention to issue the letter on the 25th, and we were requested in consequence, not so much

to regard our own position, as to give every assistance to the public. Under these circumstances, the reserve went down to £1,194,000, which was lower than would have been the case if we had looked only to the Bank's safety; on the 22d, when we were acting without reference to the Government letter, the reserve was £2,376,472.

2643. (*Mr. Herries*) That was the amount of reserve in the Bank and all its branches?—Yes, in London and in the country.

2644. Will you state how much there was in London?—I am speaking now of the 22d October, the day on which I consider we were responsible for the maintenance of the reserve; when the letter came out, the Government asked us to act up to the spirit of that letter, and we considered ourselves no longer responsible for maintaining the reserve; but till the letter was out we considered ourselves responsible for maintaining it.

2645. (*Lord George Bentinck*) You draw a distinction between the Friday and the Saturday?—I draw a distinction between the balance on Friday, when we were acting independently of the letter, and the Saturday, because on Saturday we were informed that the letter was to come out, and therefore we acted in the spirit of the letter, though the letter did not come out till the Monday. The reserve on the 22d October was, in London £1,600,025, and in the country £726,447, making together £2,376,472. I may perhaps be allowed to follow this up, by giving a statement of the extraordinary aid which was afforded by the Bank of England to different establishments, between 15th of September and 15th of November 1847, for the purpose of preventing their stopping payment. 1. The Bank of England being applied to by a very large firm in London, who had at that time liabilities to the extent of several millions sterling, advanced £150,000 on the security of debentures to that amount of the Governor and Company of the Copper Miners in England, and thereby prevented them from stopping payment; it was distinctly understood that the operation was for that purpose. 2. The Bank advanced £50,000 to a country banker on the security of real property. 3. On the urgent representations of several parties of the first importance in the City of London, the

Bank advanced £120,000 to the Governor and Company of the Copper Miners, on the guarantee of approved names, taking at the same time a mortgage on the Company's property for £270,000 to cover this sum, and the amount of £150,000 debentures before advanced upon; it was stated that the stoppage of this company would have thrown 10,000 people out of employment. 4. The Bank advanced £500,000 to the Royal Bank of Liverpool, on the security of bills of exchange, over and above their usual discounts to this bank; this advance unfortunately proved inadequate, and the Royal Bank, having no more security to offer, stopped payment. 5. The Bank assisted another joint stock bank in the country with £100,000, on the security of bills of exchange, over and above usual discounts. 6. The Bank advanced £130,000 on real property to a large mercantile house in London. 7. The Bank advanced £50,000 to another mercantile house on the guarantee of approved names. 8. The Bank advanced £50,000 to a joint stock issuing bank on bills of exchange, and agreed to open a discount account with the said bank, on condition that it should withdraw its issues, but the joint stock bank stopped payment before the arrangement could be completed. 9. The Bank advanced £15,000 on real property to a large establishment in London. 10. The Bank assisted, and prevented from failing, a large establishment in Liverpool, by forbearing to enforce payment of upwards of £100,000 of their acceptances, and engaging to give further aid if required. 11. The Bank assisted a very large joint stock bank in the country with advances on loans on bills of exchange to the extent of about £800,000, over and above usual discounts. 12. The Bank advanced £100,000 to a country banker on real property. 13. The Bank advanced a joint stock bank in the country £200,000 on the security of local bills, besides discounting £60,000 of London bills. 14. The Bank assisted another joint stock bank in the country with an advance of £100,000 on local and London bills. 15. The Bank advanced £100,000 to a large mercantile house in London, on approved personal security. 16. The Bank assisted a large house at Manchester to resume payment by an advance of £40,000 on approved personal security. 17. The Bank advanced £30,000 to a country bank on real property. 18. The Bank assisted many other houses

both in town and country, by advances of smaller sums on securities, not admitted by the Bank under ordinary circumstances; nor did the Bank, during the period in question, reject at their London establishment any one bill offered for discount, except on the ground of insufficient security.

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2650. (*The Chairman*) Will you have the goodness to refer back again to the first date which you mentioned; on the 7th of September 1844, the rate of interest was reduced from 4 per cent. to 2½ per cent.; was that connected at all with the change of the constitution of the Bank on the passing of the Act of 1844?—It was; the subject had been under consideration before the renewal of the charter.

2651. Will you state to the Committee what you consider the effect of the Act of 1844 was upon the responsibility of the Bank?—The effect of the Act of 1844 was to create a separation between the two departments, the issue department and the banking department; over the issue department we have no control whatever, and the effect of the Act of 1844 is to oblige us in the banking department to look to the amount of our deposits, and the amount of reserve that we have for meeting our deposits.

2652. Do you consider that the Act of 1844 relieved you entirely from any responsibility as regarded the circulation?—Entirely.

2653. With regard to the banking department, in what condition did the Act place you?—It placed the Bank of England in the condition of any other bank, except that we were carrying on business on a much larger scale, and we had also Government deposits to deal with.

2654. It has been stated that the effect of the Act of 1844 was to relieve you from any other responsibility than that which you had to your own shareholders, with the view of making the dividend for them as large as it could be made; do you consider that the Bank was relieved from all responsibility as regards the banking department with reference to the public interest?—I may state that as far as the Bank was concerned, I think the Bank ought to have been carried on exactly on the same principle as that established by the Act of 1844; whether the Act of 1844 had

passed or not, we ought to have had a separation of the two departments; the issue department will naturally take care of itself; with respect to the banking department, we have a duty to the public to perform, and a duty to perform to the proprietors; our duty to our proprietors would lead us to make the best dividend we could for them; but in doing that, we are bound to take care, considering the power that the Bank have, as a large body, not to interfere generally with the monetary affairs of the country. I have always considered that the two interests were united, the proprietors' interest and the public interest; I have always found that whenever a step has been taken to promote the interests of the proprietors at the cost of the public, it has invariably fallen back upon us, and instead of bettering ourselves, we have put ourselves in a worse position.—(*Mr. Prescott.*) I should say that in all the important measures of the Bank, such as in reducing or raising the rate of interest, the first thing that the directors look to is the public interest, rather than the interest of the proprietors of the Bank.

2655. That is, you consider that the managers of the Bank are bound to look to the public interest, more than to the particular interest of the proprietors?—They are bound to consider both.

2656. (*To Mr. Morris*) You consider that the two interests coincide?—Yes; I do not see how the two interests can very well clash.

2657. Was there a reduction of interest on the 29th of August 1846?—Yes, there was; we reduced the rate of interest from $3\frac{1}{2}$ to 3 per cent.

2658. Will you state the grounds upon which that reduction was made?—The reason for reducing the rate of interest was, that we had a reserve of £9,940,000 to meet deposits to the amount of £16,304,000; the bullion was £16,366,000; the exchange upon Paris was 24.72½; and gold was coming into the country; the amounts of our discounts were falling, and our advances also; and our securities had fallen.

2659. From that time no advance in the rate of interest took place till the 16th of January, when it was increased to $3\frac{1}{2}$ per cent.?—Exactly.

2660. Will you have the goodness to state to the Committee upon what grounds the interest was kept at that rate up to that time?—I think the subject was discussed in the Court about the middle of November; there was a proposal about the middle of November to raise the rate; and the majority of the Court considering that we had £8,700,000 in our reserve to meet deposits of £15,800,000, and that the bullion amounted to £14,924,000, and our discounts £6,591,000, thought that the figures did not justify an alteration; I am speaking of the majority of the Court.

2661. Were you and the Deputy Governor of opinion, that at that time there ought to have been an increase in the rate?—I was of opinion that there ought to be an increase, because at that period there were indications of a failure in the potato crop; the exchange with America had fallen; gold was going out to America; and therefore, looking to the future, I thought it would be advisable to raise the rate.—(*Mr. Prescott*). I thought it would have been more prudent, at the time, to raise the rate of interest at an earlier period than it was raised.

2662. Have subsequent events confirmed you in the impression that that would have been the proper course?—They have.

2663. (*To Mr. Morris.*) We will now go to the period of the difficulties of April of last year; at that time you borrowed upon the Three-per-cents, with a view of increasing your reserve?—Yes, we did.

2664. Did you find in the difficulties of April any inconveniences arising from the restrictions of the Act of 1844?—None whatever.

2665. Was the raising of the rate of interest postponed by the Bank during that time, with a view of facilitating any operation by the Government; I allude to the apparent necessity of Government raising money?—I think there was a discussion at the period at which the loan was being negociated in the money-market; and some members of the Court thought that, in the face of the negociation of a loan by the Government, it would be desirable, not immediately to raise the rate of interest, but it was only a question deferring the raising the rate for a week.

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2677. Will you have the goodness to state to the Committee your

opinion of the working of the Act of 1844?—The main object of the Act was to cause the paper circulation to expand and contract, as bullion flowed in or out of the issue departments, so as to keep the currency in the same state as if it were purely metallic. I consider, that this object, has been fully answered, and, under a period of extreme pressure, the convertibility of the note has been securely maintained. In October 1847, in consequence of the efflux of bullion, the notes of the issue department fell to about £22,000,000; of this issue £14,000,000 went against securities, and £8,000,000 against bullion. At that period, in consequence of the contraction of the circulation, the exchanges turned in favour of this country; if this contraction in the circulation had been counteracted, it could only have been by an increased issue upon securities. Supposing an additional issue against securities had been made to the extent of £2,000,000, an export of bullion to a similar amount would have been the consequence, the export only ceasing when the issues fell to £22,000,000. The issue department would then have stood as follows; viz.—

Issues against securities . . .	£16,000,000
„ „ bullion	6,000,000
	£22,000,000

In former periods of commercial distress, previous to the Act of 1844, the Bank did not sufficiently regard the state of the foreign exchanges, and had not a better system been pursued in 1847, the export might have continued till the amount in the coffers of the Bank had been reduced, as in 1825, to about £1,000,000; in 1837, £3,800,000; in 1839, £2,400,000; such reductions in the bullion necessitating violent and stringent measures for the purpose of regaining a sound position. The Act of 1844 has prevented this, by limiting the issues against securities; the duty of the Bank is now clearer and more simple; it has to look to its banking reserve only; the circulation takes care of itself.

2678. You speak of the Bank in former times being obliged to have recourse to stringent measures; do you consider the measures which were had recourse to then were more stringent, and caused more inconvenience to the public, than has been caused by the

operation of the Act of 1844?—I should say that the general distress throughout the country in former panics had been much greater than the distress created in 1847, though, perhaps, not so much among the commercial houses in London. The distress in 1847 generally prevailed in London, Lancashire, and Newcastle; I believe Yorkshire almost entirely escaped, and I believe that the agricultural districts escaped also, comparatively speaking; I may, perhaps, add, that in my opinion the reaction under the Act of 1844 will be much more rapid than it has been on former occasions; I mean that the country will recover the effects of the measures adopted under the Act of 1844 more rapidly than they have recovered other periods of panic.

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2718. Do you think it would be advisable to introduce any provision in the law, giving either the Government or the Bank the power of suspending the restrictive limit in case of difficulties?—I think it would not be desirable.

2719. Do you consider that under those circumstances the Act can be enforced?—Yes, I do; I think there may be certain occasions, such as those in October last, arising from panic, which it is impossible to provide for by legislation; but there is always the resource, as on the last occasion, of the Government interfering, and they did that on their own responsibility, which the Bank were not allowed to do by Act of Parliament; but if the Government had the power of interfering, I am afraid that in April, in consequence of the representations made to them, they might have been obliged to relax the law, and I think in October they would have been forced to relax sooner than they did, and that that would have been very detrimental.

2720. You state that, in case of panic, circumstances might arise in which it would be necessary to relax the restriction of the Act?—I meant to state, that it is impossible to legislate for a state of panic.

2721. Do you conceive that in times of panic the Act would work, or do you conceive that it would be necessary to have some relaxation, either as it was exercised in October, or under some legislative authority?—I think that must be left entirely to the

circumstances of the case; I think you cannot legislate for a panic; a panic arises from a want of reasoning; therefore it must be left to be dealt with according to the circumstances of the time.

2722. From your experience, are you not of opinion that a panic will arise in a time of difficulty?—Yes, it may arise.

2723. When it arises will the Act stand?—I am bound to say, that the letter of the Government produced the effect which was expected; it stayed the panic; but I must also say, that I am not sure that the panic might not have subsided even if the letter had not been issued; certain failures would have taken place; but failures have also taken place since the relaxation of the law.

2724. I am not quite certain whether I understand your opinion to be, that the Act could stand, or that it could not stand?—I should like to try the Act; I do not think it would be well to make a legislative provision for a case of panic; if a panic arises, it will be sufficient time for the Government to interfere if they think fit; but if they have power under an Act of Parliament to interfere, I am afraid they will be driven to interfere when it is desirable that they should not do so.

2725. That is as to the expediency or otherwise of introducing a legislative enactment; but do you think it would be practicable to carry the Act through in such circumstances as you, since you have been in the direction, have experienced?—Yes, I think the Act could be carried through.

2726. You think that the Act, supposing it had been in operation in 1837 and 1839, would have stood?—Yes.—(*Mr. Prescott.*) The pressure in 1837 and 1839 was not, in my opinion, so severe, nor did it so much affect the currency, as that in 1847.

2727. The amount of bullion was reduced in 1839 much lower than it has been since?—Yes, it was.

2728. What do you attribute that reduction in the bullion to?—I am of opinion, that if the Act of 1844 had been in force at that time, the bullion would not have been reduced to so low a point.

2729. You think that the Bank would have been compelled to take earlier measures?—Yes.—(*Mr. Morris.*) I think that one great

advantage of the Act of 1844 has been to oblige the Bank to take earlier measures than they otherwise would have taken.

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2731. You think that the mode of dealing with a panic is the mode pointed out by the Act, without any relaxation?—Supposing a panic to arise similar to that which occurred in October last, I would leave the responsibility of dealing with it to the Government for the time being, rather than give them authority to do so by law.

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2738. Was there any inconvenience arising from the issue of the letter?—No, I think the rate of interest being fixed as high as 8 per cent. prevented any inconvenience.—(*Mr. Prescott.*) The inconvenience was chiefly in forming a precedent which might lead to the issue of a similar letter under less urgent circumstances.

2739. But there being no inconvenience from the issue of the letter, do you not consider that it was better to issue the letter than run the risk of more pressure?—(*Mr. Morris.*) I think it might be better.

2740. Would not the same reasoning apply to the other panic?—As the Deputy-governor has just stated, if the Government once had it in their power to issue a letter of that kind, it is probable that a letter might be issued at an earlier period than it would be, supposing the Government issued it upon their own responsibility.

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2766. It has been suggested to the Committee, that instead of raising the rate of interest, it would be expedient for the Bank to limit the *échéance* of the bills that it discounts; what is your opinion on that?—I think it is much more desirable for the Bank to raise the rate of interest; because if you limit the *échéance* of the bill, you throw great difficulty in the way of the negociation of bills which are beyond the Bank's period of discount; I think it is better for the Bank to put on an additional rate of interest, so that parties holding bills of 95 days may have the means of discounting them at a certain rate.—(*Mr. Prescott.*) By raising the

rate of interest, you distribute the pressure over a greater number of parties, while by limiting the time that the bills that you discount are to run more than we do under our present regulations, you would make the pressure fall more severely on particular classes who happen to hold those bills that have a longer period to run.

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2769. Do the Bank fix a differential rate upon the bills according to the length of time that they have to run?—It is not the usual practice of the Bank to fix a different rate of interest upon bills according to the time they have to run, but it was done during the pressure in October.

2770. What was the reason of that?—It was adopted as an additional method of protecting the Bank from the calls made upon it.

2771. Would not that be open to the same objection as you have stated, to the limiting of the *echéance* of bills discounted by the Bank?—No, I think not, because the bills were not excluded; we took any bills within the period of 95 days. The Bank was desirous to lend out its money for such a period as to enable it to meet the dividends that were becoming due; therefore it gave greater encouragement to bills which had a short time to run than to bills which would be payable after the dividends became due.

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2775. (*Mr. Herries*) Do you think that the Bank could have continued to perform all those functions which have reference to the public and to its own interest, without any interference of the Government, under the circumstances of panic which then existed?—Yes.

2776. You stated that the reserve at that time which you had deposited in London was about £1,600,000?—Yes.

2777. Are you of opinion that with £1,600,000 and such an addition as you could have procured by the sale of securities or any other means, you could have answered all the demands that might have been made upon you in a time of panic?—I cannot say that we should have answered every demand that might have been made upon us, because parties might have made application for loans, and we might not have been able to make them, but up

to that period we had never refused to discount a bill coming within the 95 days, except when of doubtful quality.

2778. Could you have answered all the demands of those who had claims upon you?—Yes, we could.

2779. Would the £1,600,000 with those resources which you expected to come in, have amounted to anything like the sum that might have been demanded of you by depositors?—I have a statement here of the amount of private deposits during times of panic, and so far from private deposits being reduced at periods of panic, the tendency of the private deposits in time of panic is to increase, therefore I had no fear of private deposits being drawn from us.

2780. But you stated that you had £3,200,000, but that panic existing at a subsequent period, the reserves were reduced altogether both in town and country to £1,600,000?—That was at the time when we were acting in accordance with the Government letter.

2781. Then the panic decreased the reserve?—Yes.

2782. If your reserve was greatly diminished by the panic, and your deposits were increased, did not that rather add to the difficulty you might ultimately be under of meeting the demands of those who had claims upon you?—We have always found by experience, that at such times the general claims made upon us are not from deposits, but from those who come for advances not having deposits.

2783. There are some claimants upon you, who in time of panic, supposing you had no other means of satisfying them, you must have paid in notes?—Yes.

2784. Should you have had notes to pay them?—It would have been difficult at the time to have borrowed upon Consols, but we might have gone into the market and sold Consols to the amount of £1,000,000.

2785. What would have been the effect upon the market if at the time we are alluding to, in the then state of the public mind, you had gone into the market (your condition being known by

the public, by means of the weekly publications) and had sold public securities?—The effect would have been to strengthen our reserve.

2786. What would have been the effect upon the public securities?—The effect upon the public securities would have been to reduce the value of the securities; money was extremely scarce, and if we had gone into the market and sold £1,000,000 Consols we should of course have created a fall in the market; it might be to the extent of 1 or 2 per cent., but we should have sold £1,000,000 of Consols, not in a day, but in the course of a week; even supposing that they went down 5 per cent., our first duty is to maintain the reserve for the purpose of meeting the liabilities upon us, and we should have taken notes out of the market, perhaps not to the whole extent, but for a considerable portion of the amount of the securities sold.

2787. Is it your opinion, as a person well acquainted with the mercantile mind of London, that under such circumstances, adverting to what you know to have been the public feeling at that time, you really could have sold securities to such an amount as you have mentioned, and reduced the value of securities only 1 or 2 per cent.?—I corrected myself by saying 5 per cent.; I put the question distinctly to the party, who is employed in selling the public securities for the Bank, and I have again repeated it to him, and he stated that we should have been able to have sold in the course of a week Consols to the amount of £1,000,000, without producing any very great fall in the market.

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2845. You stated, in the early part of your evidence, that the banking department was acting as any other bank would do, and was limited just as any other banking company would be?—I think I stated that the banking department was bound to act in the same way as any other banking company, always considering the great power we have from having Government deposits; but in every other respect I consider that the banking department of the Bank of England is to be managed in the same way as any other private bank.

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2857. You are aware that the whole difficulty which occasioned the alarm in October 1847, arose out of the knowledge, that unless you had notes in your banking department you had no other means indeed of paying the demands upon you; you could not create notes for the purpose; you had no power of issuing notes upon credit in the banking department?—But we always have the power of taking notes out of the market by selling securities, that is the only alternative.

2858. By reason of this limitation, it was that at the period to which we have adverted, you had no alternative, supposing demands to have been made upon you to an extent of £1,500,000 or £1,600,000, than that of selling securities in the market, or borrowing notes upon the credit of the securities?—That was the only resource we had.

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2879. (*Mr. Hudson*) You stated that you were always in a condition, under the Act of 1844, to meet any demand upon you; what do you think the effect upon the public would have been, if you had proceeded to sell £1,000,000 of stock?—The effect would have been to convert the securities that we sold into bank notes, which would have increased our reserve of bank notes.

2880. Do you think the sale of £1,000,000 of securities would have met the demand?—I think in October £1,000,000 would have been sufficient with the amounts which were coming in every day from the bills that were going off, and considering that the revenue was coming in to the amount of £300,000 a week.

2881. Supposing the London bankers had been, from the pressure that there was upon them, obliged to withdraw a large amount of the balances which I believe equalled pretty nearly the amount of your reserve on the 22d of October, what would have been the effect?—On the 22d of October, the reserve in London was £1,600,025, and in the country, £776,447, making together £2,376,472; and the bankers' balances were £1,774,472; supposing those balances had been withdrawn from us in the course of business, we should have had an opportunity of going into the market, and by selling securities, we should have strengthened

ourselves by taking notes out of the market, and by that means have met the bankers' demands.

2882. What would have been the effect upon the stock market?—The effect would have been to have reduced the price of securities, and to have brought notes into the Bank of England.

2883. Would you think that a desirable state of things to have been carried out, remembering that it was merely a panic not arising from an external drain?—I think it is not only desirable, but imperative upon the Bank to take every step to maintain the reserve of the banking department.

2884. Do you think that the law is a wise law which compels a course of action like that?—I think the law is quite right which separates the issuing and banking departments, and in separating the two the action must be that which I describe.

2885. Do you think a law is wise which brings about that state of things?—I do not allow that the law brought about that state of things.

2886. Supposing that the Act of 1844 had not existed, do you think that that would have been the effect?—If the Act of 1844 had not existed, I think assistance might have been given to the country, but the act of giving assistance would have been accompanied with an additional issue on securities and an additional export of gold; and if such a system had been pursued, as the amount of bullion exported would have been greater, the Bank would have been obliged to take more stringent measures, and the effect would have been severer than it has been under the present Act.

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2890. Did you not lend stock?—Yes; we lent £300,000 Consols to one joint stock bank, and £100,000 to another.

(10th March 1848.)

2996. (*Mr. Hudson*) Did you not refuse discounts to all banks of issue?—We have always refused discount accounts to banks issuing their own notes.

2997. Upon what ground?—The ground upon which I understand it has been refused is, that, previous to the Act of 1844,

the Bank made arrangements with certain joint stock banks, to induce them to adopt the Bank of England circulation; and after the Act of 1844 had been passed, it was thought that it would be hard not to continue the same facilities to those banks which they had obtained from the Bank before the passing of the Act; that arrangement having been made for our mutual convenience.

2998. In coming to that decision, you did not keep in view the great public interests of the country; but the object in view was the increasing the power of the Bank of England, by inducing all other banks to issue their notes?—We gain nothing by inducing parties to issue our notes, any profit beyond the £14,000,000 goes to the Government.

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3000. It is, however, a complaint, that you have a stringent rule, by which you refused discounts or accommodation to all banks of issue?—I have no objection to state, speaking individually, that now that the Act of 1844 has been passed, I do not see any reason why they should not be placed on the same footing as the others; but the reason the Court has not acceded to that, is in consequence of those parties having worked with us at a period when it was useful to us that they should do so.

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3003. (*Mr. T. Baring*) Is the Bank in the habit of lending upon foreign coins in this country?—Yes; I think we have lent upon silver; I do not think we have ever been called upon to lend upon gold.

3004. Then you have never refused to lend upon gold?—We have never refused.

3005. You state that on the 7th of September 1844, your interest was reduced to $2\frac{1}{2}$ per cent.; previous to that time the general minimum rate of interest had been 4 per cent.?—For a long period of years it had been 4 per cent.

3006. Do you think that course of lowering the rate of interest to $2\frac{1}{2}$ per cent. is one, which, under similar circumstances, the Bank should again adopt?—Under similar circumstances, decidedly.

3007. Is that upon the principle which you stated that the object

of the Act was to cause the circulation to expand and contract as bullion would do?—Raising or lowering the rate of interest has only reference to the state of our reserve in the banking department; I consider the two departments to be quite separate; the issue department might be in Whitehall; and the banking department in Threadneedle-street; our accounts are kept separate, and the notes are kept distinct, under different locks and keys, so that the separation is complete.

3008. You think that there is no disadvantage in reducing the rate of interest to any minimum?—When the rate of interest out of doors was $1\frac{1}{2}$ to $1\frac{3}{4}$ per cent. to 2 per cent., if the Bank pretended to act as discounters, it was absurd to attempt to keep their rate of discount at 4 per cent.

3009. It would not be the policy of the Bank to remain quiet and passive, and not attempt to get its notes out?—No, it would not; I may state with respect to the reserve, that I consider that the amount of reserve which the Bank hold naturally has an effect upon the notes out with the public; I am speaking of notes out of the banking department; the circulation must be contracted if the Bank holds a large reserve, and money will be dearer than if the Bank employed a large portion of the reserve; if we keep the notes in the reserve, instead of giving them out to the public, the effect that ought to be produced by gold coming into the country is counteracted; it induces a larger amount of capital to come into the country, because you do not allow that portion which has come in to be employed; if you do not put out the gold, or the representative of gold, you entirely prevent it having any effect upon the circulation; the exchange will be kept up, and gold will continue to come in.

3010. Do you think it unwise to keep the rate of interest at 4 per cent.?—At the present moment there are peculiar circumstances, and I do not think we should be justified in putting down the rate of interest; the rate of interest out of doors is $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent.

3011. It is entirely a matter of discretion for the Bank?—Entirely.

3012. You do not think that putting down the rate to $2\frac{1}{2}$ fosters undue speculation?—There is no doubt that when money is

extremely plentiful, speculation generally arises; but it is not the Bank putting down the rate that makes money cheap; the Bank cannot keep the rate of interest low for any length of time; the Bank has a certain amount of notes to deal with; and if the Bank puts down the rate of interest lower than the rate out of doors, the Bank's means of giving accommodation would soon be exhausted, and the consequence would be that other parties would discount without competition with the Bank.

3013. When you reduced your rate to $2\frac{1}{2}$ per cent. was not the rate out of doors reduced also in competition with you?—We fixed the rate at $2\frac{1}{2}$, in order not to come into immediate competition with the rate out of doors, and we did not come into competition till the rate out of doors rose to our rate. The discounts in London at the time we fixed that rate were £113,000, and on the 5th of October they were £139,000; so that though we fixed the rate at $2\frac{1}{2}$ per cent. for some considerable period, the discounts did not increase upon us.

3014. You do not think that the lowering the rate of interest to that extent makes a sudden contraction necessary afterwards?—I think not, provided when the market rate of interest rises you follow that rate.

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3151. (*Mr. T. Baring*) Did the distrust of individuals immediately cease upon that letter coming out?—The panic was very much allayed by it.

3152. Were there not many failures up to the end of the year?—There were failures after the issuing of the letter.

3153. Did there not exist a good deal of commercial distrust after the letter came out?—The effect of issuing the letter was very much to relieve the want of confidence; there was still a want of confidence, but not to the same extent.

3154. As far as the letter would affect commercial confidence, was not its effect to give facility to parties who had real securities to offer?—Yes, but the complaint before that was, that parties having securities to offer had not the means of obtaining bank notes, and therefore the parties said, 'Though we have security we shall not be able to meet our liabilities'.

3155. If commercial distrust still existed to a great degree up to the end of the year, whilst the amount of bank notes out with the public was gradually diminishing, do you not attribute the demand for bank notes up to the time of the letter relaxing the law to the distrust of one merchant of another?—I think the distrust decreased very much indeed after the issuing of the letter.

3156. Were there not some apprehensions of the effect of over-trading?—There were fears with respect to parties who had been trading beyond their means.

3157. Does it not show that the panic was really produced, not by the distrust of man of man, but by an apprehension arising from the restriction of the currency?—The origin of the panic was the distrust arising in consequence of the state of commercial houses, and the failures which were taking place; it was impossible to know whom to trust; that created a pressure for money, and that pressure increased to panic; when the letter was issued the panic was relieved, as far as the difficulty of obtaining the bank notes was concerned.

3158. And the fact of the gradual decrease of notes out with the public showed that the real drain upon the Bank was stopped by the letter of relaxation?—It showed that the drain upon the Bank was stopped by the letter of relaxation, not on account of there not being a sufficient amount of bank notes in the country, but in consequence of parties hoarding notes, or keeping a larger amount than they required; the letter, by allaying the panic, brought notes out into circulation, and the consequence was that they returned to the Bank.—(*Mr. Prescott*) It proved that the panic was over, but it is a question whether it would not have ceased without the letter.

3159. In what way could it have ceased without the letter?—It is in the nature of panic to exhaust itself.

3160. That is, when a good many houses have failed, there are not so many remaining that can fail?—That is one reason; but I may add that in a week or two there must have been a great increase of the circulation by the importation of bullion.

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3168. You are quite satisfied with the Act as it at present stands?

—Yes; I suggested a slight alteration with respect to the proportion of silver; but, on the whole, I am quite satisfied with the Act as it stands.—(*Mr. Prescott*) I have not heard of any mode by which it could be improved; but I do not say it is perfect.

3169. Is that the opinion of the majority of the Court?—(*Mr. Morris*) I can hardly say what is the opinion of the majority of the Court; no division has ever been taken upon the question.

3170. If circumstances similar to what occurred last year should recur in this country, the country is to expect the same mode of treating the case on the part of the Bank?—Yes.

3171. Whether it be an internal drain, or whether it be an external drain, the only remedy that the Bank direction consider ought to be applied, is restriction in some mode or other, they preferring a rise in the rate of interest, and leaving it to the Government to interfere when it thinks right?—I cannot speak to the opinion of the Bank, but I speak to my individual opinion; my own individual opinion is, that that is the case.

3172. The Committee understand you to think that though interference was justifiable on the 25th, any previous interference would have been improper?—Yes; but I am not prepared to say that the interference on the 25th was unnecessary.

3173. So that, according to your opinion, before the Government would be justified in interfering, we must have the same extent of panic and alarm and of failures?—I think the Government would not be justified in interfering under a less state of alarm and excitement than prevailed on that occasion.

3174. You draw no distinction between the case in October, when the demand was not from a foreign export of gold in any way, or an unfavourable state of the exchanges?—As far as the banking department of the Bank is concerned, it is immaterial to them whether the demand upon the reserve arises from an internal or an external drain.

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3186. The private and joint stock banks, not having the power of increasing their issues, might not the Bank of England increase

its issues to a greater extent, since it may calculate with perfect accuracy upon the whole extent of the issues in the kingdom?—The effect of the Bank increasing its issues would be as prejudicial to the public as an increase of the issues of the joint stock banks.

3187. But there cannot be the same competition of issue?—No; but whether an increased issue is produced by competition, or whether it takes place without competition, the effect out of doors is the same.

3188. But as you would not have another body issuing by your side, you might increase your issues?—No; the Bank could not safely make those issues, because it is necessary to keep a certain reserve to meet their depositors; supposing you increase the issues beyond that amount you will endanger the stability of the banking department.

REPORT FROM THE SECRET COMMITTEE OF THE HOUSE OF LORDS ON THE COMMERCIAL DISTRESS.

28th July 1848.

(Parliamentary Papers, 1847–8, vol. viii, part iii.)

Section XIII. Remedial Measures recommended by the Witnesses.

The Committee feel, in common with every Witness examined, the Duty and Obligation of maintaining at all Times the practical convertibility of the Bank Note. This they consider to be the first and most essential Object, which, in all Discussions like the present, must be kept constantly in view, both by the Legislature and by those who direct the Banking Operations of this great Commercial Community. Upon the practical enforcement of this Principle not only does public and private Credit depend, but the whole Industry of the productive Classes, and the Wages of Labour. On this Point therefore the Committee have the Satisfaction to think that there can be no Difference of Opinion. The practical Questions to be settled at present are, Whether this great Benefit is attained with Certainty? Whether it is attained by

proper Means? and, Whether the Restrictions of the Act of 1844 are not attended with grievous and unnecessary Evils of a collateral Kind? Many of the Provisions of that Act are, in the Judgment of the Committee, as well as in the Judgment of the great Majority of the Witnesses, judiciously adapted to the Purpose for which they were framed. But an Attempt to enforce by Law, under all Circumstances, one fixed and inflexible Rule for the Management of a national Bank of Issue seems inconsistent with the best written Authorities, with the general Principles of Economic Science, as well as with the Testimony of many Witnesses of practical Knowledge and Experience. It can hardly fail to be productive of most serious Evils, more especially when a Contraction of Issues, indispensable in a State of adverse Foreign Exchange, is rendered imperative, as it is by the Act of 1844, under Circumstances which may be wholly opposite. It has been shown that an Enlargement of the Issues of the Bank under a favourable Foreign Exchange, would frequently be expedient at Times, when, under the Provisions of the Act, no such Enlargement would be possible, and even in Cases where by the Act a compulsory Contraction would be enforced.

It is difficult, in the Judgment of the Committee, to appeal to more demonstrative Evidence on this Subject than is to be found in the Treasury Letter of the 25th October. That Letter was a practical Repeal, by an Act of Authority, of the restrictive Clauses of the Act. It appears impossible at once to defend the restrictive Provisions of this Act, and to justify the Letter, which in this respect abrogated or at least suspended those very restrictive Provisions. The Committee consider that those Restrictions materially aggravated the Pressure, and produced the Panic, of October 1847. But even if those Restrictions were originally defensible when enacted, their Hold on Opinion, as well as their Authority in Practice, have been materially impaired by the Letter by which they were superseded,—by its acknowledged Necessity, and by its undeniable Success. The Precedent is established, and its Application will inevitably be called for, on other Occasions; and it may so happen that the Principle of Relaxation will be applied under Circumstances less urgent and less justifiable than those which occurred in 1847. The Committee are therefore of

opinion that it is expedient for the Legislature to provide specifically for the Manner and the Responsibility of relaxing these Restrictions in Times when it can be done consistently with the perfect Convertibility of the Note,—an Obligation which should never be forgotten. That the Contingencies under which a Suspension of the Restrictions of the Act will be called for and applied hereafter are not remote and improbable, is admitted even by those who defend the Continuance of the Act in its Integrity. Mr. Loyd evidently considers the events which rendered the Letter justifiable as likely to be of occasional Recurrence, arising naturally out of the very Framework and Construction of the Commercial System of England. In reference to the Interposition of the Government in October, 1847, he observes:—

'It seems to me that the Issue of that Letter arose out of one of those peculiar Combinations of Circumstances which may occur occasionally in a Community of prodigious Activity and Enterprise, carrying on trading Operations on a gigantic Scale, and by means of an extended System of Credit. You cannot build up in this Country an enormous and complicated System of Credit without being occasionally, under some very peculiar and extraordinary Combination of Circumstances, exposed to the Possibility of Panics seizing the Public Mind, which cannot be regulated by any systematic legislative Provisions, but which must be met, according to the Exigency of the Moment, by some extraordinary and exceptional Measure.'

Sir Robert Peel's Letter, read by Mr. Cotton (3284), justifies the Inference that, in his opinion, Circumstances will occasionally arise when these Restrictions must be suspended by an arbitrary Act of Authority.

The Governor of the Bank expresses a still more distinct Opinion that such Contingencies will not be unfrequent. His Evidence is as follows:—

'You have stated that a foreign Demand for Gold and a domestic Demand for Gold are different and distinguishable Things in their Banking Consequences. The Act of 1844 deals with those two different Causes precisely in the same Manner. Do you think that is right?—Yes, I do.

'On what Ground?—When I say that I think it is right, I think

that you could not make Provision in the Act for an Exception like that of a Panic which may arise once in Five or Six Years, or not even that.'

To leave these Cases, when they do arise, to be dealt with by the irregular Exercise of the mere Authority of the Crown and its Advisers, setting aside ' once in Five or Six Years ', or even at Periods more remote, the express Provisions of a distinct Statute, appears wholly inconsistent with that Fixity and Order which it is, or ought to be, the Object of all Law to secure. The Evidence of Mr. Horsley Palmer (779–792), Mr. Gurney (1166, 1202, 1226), as well as that of many of the other Witnesses, is most material as illustrative of these Truths.

Two Suggestions have been made to the Committee: the one an absolute Repeal of the Act of 1844; the other a Continuance of the Act, accompanied by a Power of Relaxation. Believing that many of the Provisions of that Act are judiciously adapted to secure the primary Object of the Convertibility of the Bank Note, and viewing the great Balance of Evidence which has been given in favour of the second of these Alternatives, it is to that Proposition that the Committee are desirous of directing the Attention of your Lordships. It is true that to those who may have expected that the 7 & 8 Vict. c. 32. would effectually prevent a Recurrence of Cycles of Commercial Excitement and Depression, the Contrast between the Years 1845 and 1847 must produce a grievous Disappointment. To those who anticipated that the Act would put a Check on improvident Speculation, the Disappointment cannot be less, if Reliance is to be placed (as the Committee are confident it may) on the Statement of the Governor of the Bank, and of other Witnesses, that ' Speculations were never carried to such an enormous Extent as in 1846 and the Beginning of 1847 '. If the Act were relied on as a Security against violent Fluctuations in the Value of Money, the Fallaciousness of such Anticipation is conclusively proved by the Fact, that whilst the Difference between the Highest and the Lowest Rate of Discount was in the calamitous Years 1837 and 1839 but Two and a Quarter to Two and Three Quarters per Cent., the Difference in 1847 rose to Six and Three Quarters. If it was contemplated, that the Number and the Extent of

Commercial Failures would have been lessened, the deplorable Narrative of the Governor of the Bank, recording the Failure of Thirty-three Houses comparatively in large Business, in London alone, to the Amount of £8,129,000, is a conclusive Reply. If the enormous Extent to which Railroad Speculation has been carried, be considered as an Evil to which a sound System of Banking could have applied a Corrective, such a Corrective has not been found in an Act, since the passing of which, during a Period of Three Years, an increased Railway Capital of upwards of £221,000,000 has been authorized to be raised by Parliament; and when the enormous Sum of £76,390,000 is stated, on high Financial Authority, to have been actually expended on Railways in Two Years and a Half. If the Power of obtaining Banking Accommodation on moderate Terms, were considered to be promoted by the Act of 1844, it cannot be said that this important Object has been attained, since it appears in Evidence that in 1847, in addition to an Interest of Nine or Ten per Cent., a Commission was also frequently paid, raising the Charge to Ten, Twenty or Thirty per Cent., according to the Time which Bills had to run. The Committee are fully aware that Alternations of Periods of Commercial Excitement and of Discredit, of Speculation and of Collapse, are likely to arise under all Systems of Currency; it would be visionary to imagine that they could be averted altogether, even if the Circulation were exclusively Metallic. But it is on this Account that greater Care should be taken to avoid increasing an Evil, perhaps inevitable, by any arbitrary and artificial Enactments.

The Committee are of opinion, that the Principle on which the Act of 1844 should be amended is the Introduction of a discretionary relaxing Power; such Power, in whomsoever vested, to be exercised only during the Existence of a favourable Foreign Exchange.

Several Plans have been suggested by which such a relaxing Power may be exercised, but they resolve themselves practically into Three—a legalized Authority vested in the Government; in the Government and in the Bank conjointly; or, in the Bank of England alone. The objection obviously existing to the first of these Propositions is, the Danger that all Governments are liable,

more or less, to be influenced in such Cases by political rather than by economical Considerations. It may also be apprehended that the Exercise of an undefined and extraordinary Power would depend too much on the personal Character or the political Position of the Minister for the Time being. The second Proposition is open to other but equally powerful Objections. A divided Responsibility becomes frequently no Responsibility at all. The Government might cast the Responsibility on the Bank, the Bank on the Government, and in this Conflict the Interests of the Public would be forgotten or defeated. A Third Proposal (which in the Judgment of the Committee is preferable to either of the Two first) namely, vesting this Discretion in the Bank of England, cannot be disposed of without giving some Consideration to the Constitution of the Bank of England. The Objections which have been often urged against the Bank, more especially if intrusted with a Discretion like that now under Consideration, are a Want of Permanence and of Consistency derived from its System of periodical Elections of Governors and Deputy Governors,—the evil Consequences of filling those high and important Offices as well as the Appointments to the Committee of Treasury, by a mere rotation of Seniority,—and the intimate Connexion subsisting between the Directors and the Commercial World of London, which may cast on them a Degree of Pressure difficult, at Times, to be resisted. It seems further to be apparent, from the Evidence, that the immediate pecuniary Interests of the Proprietors as a trading Company may at Times supersede or control larger and higher Considerations. This ought not to be. Whilst the Committee express this Opinion, they must guard themselves from the Supposition that they consider that the Bank ought to undertake or can perform Functions which belong to the Legislature and to the responsible Government. The first Duty of the Bank of England is, so to conduct its Affairs as to secure Means for the Performance of all its Engagements with Integrity and good Faith. Prudence and Discretion, the Application of scientific Truth to assist, and, at Times, to correct the Inferences drawn from Experience, should be its guiding Principles; but no narrow Views of the mere pecuniary Interests of its Proprietary should exclusively control its Action. To the Bank of England Parlia-

ment has confided great Privileges and exclusive Powers; for the Exercise of these Powers the Bank is responsible. In these respects the Bank of England differs from an ordinary trading Corporation; and, consequently, is bound always to keep in view the real and permanent Interests of the Commercial Classes, and of that great Community of which it forms a Part. The true Interests of the Proprietors of Bank Stock can never be prejudiced by being considered in connexion with these larger Principles.

The Committee have been informed that Steps have already been taken by the Directors themselves to obviate some of these Objections.

Mr. Cotton announces the Determination of the Court to abandon the Principle of Election by Rotation, and to recommend to the Proprietors for Election as Governor and Deputy Governor the Directors they consider best qualified for the Situation.

It is also stated that in order to secure the Services in the Committee of Treasury of a Director, the ordinary preliminary Conditions of having filled the Chair was dispensed with when the Health of the Party rendered his Appointment as Governor inexpedient. In the Cases both of Mr. Cotton and Mr. Palmer, these Gentlemen were re-elected to their Offices for a double Term where a Continuity of Action was required in consequence of the pending Renewals of the Charter. From these Facts the Committee feel themselves warranted in entertaining a Hope that whatever further Amendments of Systems may be required both for the Interests of the Bank and of the Public will be favourably considered by the Directors and Proprietors, even before the Revision of the Charter, when the whole Subject would be open to the Authority of Parliament. Recognizing the Ability, Disinterestedness, and unimpeachable Integrity of that great Corporation, the Committee are desirous that any necessary Changes should be made with the least Disturbance of the present System, and with a Preservation of the honourable Position and the Independence of the Bank of England. The Committee have received from Mr. G. C. Glyn a Suggestion which they consider to be so important as to deserve Attention. That Suggestion is as follows:—

'If I were to offer any Suggestion (which I should not have ventured to offer if it had not been asked from me by your Lordships), I should prefer leaving the whole Responsibility of the Circulation in the Hands of the Bank of England. I do not think there is much Advantage in a double Responsibility divided between the Bank of England and the Government. But I consider that it would be well that the Bank Court should have in it certain Persons not elected by the Proprietors, who should be appointed under Act of Parliament for a limited Time, or in any other Way which may be deemed advisable, not immediately by the Government or the Proprietors, and not removable by the Government, and that they should have, not an absolute Veto upon the proceedings of the Bank Court, but that if they dissented from the Majority their Reasons for that Dissent should always be submitted in Writing, and that they should be laid before Parliament, if Parliament saw fit, from Time to Time. I think that the Introduction of these Commissioners and their Protests and Influence would exercise a very wholesome Control upon the Body of Governors, and at the same Time would not deprive them of that Power of which as representing the Proprietors it would not be right that they should be deprived.

'Would you add to those Alterations any Regulations with respect to the Management of the Currency with a view to the Exchanges, or to any other Circumstances?—I should leave that to the Court and to those Commissioners to determine as they saw fit from Time to Time.

'Do you consider that those Commissioners should be Persons not engaged in Trade?—I would rather they were not engaged in Trade. I think you might find People of Experience enough who were not engaged in Trade who were fit for the Duty, but would not make it an absolute Condition of Eligibility.

'Do you mean that they should be appointed for Life?—Not for Life. It is impossible to know beforehand how far a Man may be fit for a Position of that Sort, and therefore I would make the Appointment for Three Years, or for some Period, and renewable.'

If the Committee considered that the Act of 1844, which they desire to see amended so far as its restrictive Clauses are concerned, was essential to the practical Convertibility of the Bank Note, they would hesitate in recommending any Change. But it should never be forgotten that the Liability of the Bank consists in its Deposits, as well as in its Promissory Notes. The legal Obligation to discharge both is the same; the Failure of either would be equally fatal. The Protection given by the Act of 1844 is mainly given to the Bank Notes, and in some degree at the Risk of the Deposits. This appears undeniable on comparing the Reserve, in the Third Week of October, with the Amount of private Deposits. Had any unfortunate Circumstances interfered with the Power of meeting the latter Engagements, or had not the Treasury Letter been written, there seems little Doubt of the fatal Consequences which must have ensued. Had it been impossible to pay the Deposits, a Discredit of the Bank Note must have been the Consequence. Nor can it be rationally questioned but that such a Misfortune might have exposed to Risk the Convertibility of the Bank Notes.

Before the Committee close their Report, which the extreme Importance and Complexity of the Subject referred to them, as well as the Value of the Evidence taken, has rendered necessarily protracted and laborious, they feel it right to admit, that the Conclusions to which they have come are opposed by the Evidence of Witnesses of Ability and of Experience, and entitled, on both Accounts, to Respect and Consideration. The Governor of the Bank states (4), that ' nothing can have worked better than the Act of 1844 has done; and that during a Period of extreme Pressure that Act has preserved the Convertibility of the Note '. This Evidence is, it is true, applied to the Issuing and not to the Banking Department; but, on a subsequent Day, the Approval of the same Witness is given with greater Distinctness. ' I think the Act has worked so well ', he observes, ' that it is not worth the while of Parliament to discuss whether Distress has been produced by the Act or not.' Mr. S. J. Loyd states (1351), ' that the Act had no Effect whatever in aggravating the Pressure. It protected the Public from the additional Evil, which would otherwise have occurred, of a Failure in maintaining the Convertibility

of the Notes, and the consequent complete Destruction of our Monetary System'. Mr. George Norman states, 'that both in Spring and Autumn 1844 the Act produced the Effect of keeping Things very much in their natural and legitimate Course' (2681); and the following Quotation expresses an Opinion still more absolute and unqualified:

'After the Experience that you have had of the working of the Act of 1844, are you of opinion that any Alterations, and if so what Alterations, are advisable?—I can give a very unhesitating Opinion upon that Subject. I should consider any Alteration in the Act of 1844 as highly inexpedient.'

Mr. Cotton's Judgment is equally strong, he having been Governor of the Bank at the Time the Act of 1844 was introduced into Parliament. His Evidence on this is as follows:—

'Did you at that Time form any decided Opinion as to the Expediency of introducing such an Act?—I did.

'Was your Opinion favourable to the Introduction of the Act, or the contrary?—Very favourable.

'Having formed those favourable Anticipations as to the Act, do you consider that the Act has since that Time been attended with beneficial Consequences upon the Affairs of the Bank, and upon the general Condition of Business?—I think it has conferred inestimable Benefits, both upon the Banking Operations of the Country and also upon Business.

'No Incident has occurred during that Time to shake your Opinion in that respect?—None.

'Are you of opinion that the Existence of that Act materially affected the Proceedings of the Bank of England in the Commencement of last Year, when great Distress arose in various Branches of Trade?—I think it no further affected it than would have been the Case if it was known that the Bank acted upon sound Principles.'

The Committee are far from giving these Extracts as the full Substance of the Evidence given by the Witnesses they have named. On the contrary, in that Evidence there is much Matter of great Importance, which, for a clear Understanding of the

Question, should be deliberately weighed and compared with the Evidence which is conflicting, and which, in the Judgment of the Committee, appears greatly to preponderate.

In conclusion, the Committee think it right to add, that, whilst they feel deeply the Necessity of a sound System of Legislation for the Bank of England, and for all other Establishments entrusted with the Privilege of issuing Notes as Substitutes and Representatives of the current Coin of the Realm, they are far from suggesting that it is upon Laws, however wisely framed they may be, that Reliance can, or ought exclusively to be placed. The best Banking System may be defeated by imperfect Management; and, on the other hand, the Evils of an imperfect Banking System may be greatly mitigated, if not overcome, by Prudence, Caution and Resolution. In the Confidence universally and justly placed in the Bank of England the fullest Testimony is borne to the Integrity and good Faith with which its great Transactions have been conducted; and the Opinion of the Committee in this respect is best shown in their Desire to see vested in the Bank a wider Discretion than they possess under the Act of 1844,—a Discretion which the increased Knowledge produced by Experience and Discussion, and in which the Bank of England can hardly fail to participate, will enable them to exercise to the Advantage of their own Corporation, to their own Honour, and to the permanent Benefit of the Public, and more especially of the Commercial Classes of England.

THE END OF THE USURY ACTS

17 & 18 VICT. C. 90

An Act to repeal the Laws relating to Usury and to the Enrolment of Annuities.

(10th *August* 1854.)

Whereas it is expedient to repeal the Laws at present in force relating to Usury: Be it enacted by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, as follows:

1. The several Acts and Parts of Acts made in the Parliaments of *England* and *Scotland*, *Great Britain* and *Ireland*, mentioned in the Schedule hereto, and all existing Laws against Usury, shall be repealed.

2. Provided always, That nothing herein contained shall prejudice or affect the Rights or Remedies of any Person, or diminish or alter the Liabilities of any Person, in respect of any Act done previously to the passing of this Act.

3. Where Interest is now payable upon any Contract, express or implied, for Payment of the legal or current Rate of Interest, or where upon any Debt or Sum of Money Interest is now payable by any Rule of Law, the same Rate of Interest shall be recoverable as if this Act had not been passed.

4. Provided always, That nothing herein contained shall extend or be construed to extend to repeal or affect any Statute relating to Pawnbrokers, but that all Laws touching and concerning Pawnbrokers shall remain in full Force and Effect, to all Intents and Purposes whatsoever, as if this Act had not been passed.

SCHEDULE referred to by the foregoing Act.

ACTS and PARTS of ACTS of the Parliaments of England, Great Britain, and the United Kingdom of Great Britain and Ireland.

37 Henry 8, c. 9.	The whole of an Act passed in the Thirty-seventh Year of the Reign of King Henry the Eighth, intituled 'A Bill against Usury'.
13 Eliz. c. 8.	The whole of an Act passed in the Thirteenth Year of the Reign of Queen Elizabeth, intituled 'An Act against Usury'.
21 Jac. 1, c. 17, made perpetual by 3 Car. 1, c. 4, s. 5.	So much of an Act passed in the Third Year of the Reign of King Charles the First as enacts that an Act passed in the Twenty-first Year of King James the First, intituled 'An Act against Usury', be made perpetual.
12 Car. 2, c. 13.	The whole of an Act passed in the Twelfth Year of the Reign of King Charles the Second, intituled 'An Act for the restraining the taking of excessive Usury'.
Confirmed by 13 Car. 2, Stat. 1, c. 14.	So much of an Act passed in the Thirteenth Year of the Reign of King Charles the Second, intituled 'An Act for confirming

	' an Act intituled "An Act for encouraging ' " and increasing of Shipping and Naviga- ' " tion ", and several other Acts, both ' public and private, mentioned therein,' as confirms the herein-before mentioned Act of the Twelfth Year of the same Reign.
12 Anne, Stat. 2, c. 16.	The whole of an Act passed in the Twelfth Year of the Reign of Queen Anne, intituled ' An Act to reduce the Rate of Interest, ' without any Prejudice to Parliamentary ' Securities '.
53 Geo. 3, c. 141.	The whole of an Act passed in the Fifty-third Year of the Reign of King George the Third, intituled 'An Act to repeal an Act of ' the Seventeenth Year of the Reign of His ' present Majesty, intituled "An Act for ' " registering the Grants of Life Annuities, ' " and for the better Protection of Infants ' " against such Grants, and to substitute ' " other Provisions in lieu thereof ",' except so much thereof as repeals the said Act of the Seventeenth Year of King George the Third.
3 Geo. 4, c. 92.	The whole of an Act passed in the Third Year of the Reign of King George the Fourth, intituled 'An Act to explain an Act ' of the Fifty-third Year of the Reign of His ' late Majesty, respecting the Enrolment of ' Memorials of Grants of Annuities '.
7 Geo. 4, c. 75.	The whole of an Act passed in the Seventh Year of King George the Fourth, intituled ' An Act to explain an Act of the Fifty-third ' Year of the Reign of His late Majesty, ' respecting the Enrolment of Memorials of ' Grants of Annuities '.
5 & 6 Will. 4, c. 41.	So much of an Act passed in the Session of Parliament holden in the Fifth and Sixth Years of the Reign of King William the Fourth, intituled 'An Act to amend the Law ' relating to Securities given for Considera- ' tions arising out of gaming, usurious, and ' other illegal Transactions ', as relates to Securities given for Considerations arising out of usurious Transactions.

13 & 14 Vict. c. 56. The whole of an Act passed in the Session of Parliament holden in the Thirteenth and Fourteenth Years of the Reign of Her present Majesty, intituled 'An Act to continue 'the Act for exempting certain Bills of 'Exchange and Promissory Notes from the 'Operation of the Usury Laws.'

ACTS of the Parliament of Scotland.

An Act of the Eleventh Parliament of King James the Sixth, Chapter Fifty-two, 'It is not lesum to take ane greater annual Rent for the 100 Poundes nor Ten Poundes, or Five Bolls Victual'.

An Act of the Fourteenth Parliament of King James the Sixth, Chapter Two hundred and twenty-two, 'For Punishment of Committers of Usury'.

An Act of the Fifteenth Parliament of King James the Sixth, Chapter Two hundred and fifty-one, 'It is not leasum to take mair annuall Rent or Profet nor Ten for the Hundreth'.

An Act of the Sixteenth Parliament of King James the Sixth, Chapter Seven, 'Explanation of the Acts of Parliament anent Ocker and Usury'.

An Act of the Twenty-third Parliament of King James the Sixth, Chapter Twenty-eight, 'Anent taking of annual Rent beforehand to be Usurie'.

ACTS of the Parliament of Ireland.

An Act of the Tenth Year of King Charles the First, Session Two, Chapter Twenty-two, intituled 'An Act against Usury'.

An Act of the Second Year of Queen Anne, Chapter Sixteen, intituled 'An Act for reducing of Interest of Money to Eight per Cent. for the future'.

An Act of the Eighth Year of King George the First, Chapter Thirteen, intituled 'An Act for reducing the Interest of Money to Seven per Cent.'

An Act of the Fifth Year of King George the Second, Chapter Seven, intituled 'An Act for reducing the Interest of Money to Six per Cent.'

THE BANK ACTS BEFORE PUBLIC OPINION; AND THE 1857 CRISIS

BANK RATE AS A MEANS OF CONTROL

Evidence of THOMAS MATTHIAS WEGUELIN, formerly Governor of the Bank of England, and SHEFFIELD NEAVE, Governor of the Bank of England, before the Select Committee on Bank Acts, 19th May 1857.

The CHANCELLOR OF THE EXCHEQUER in the Chair.

(See Parliamentary Papers, 1857, Session 2, vol. x, part i.)

298. (*Mr. Gladstone*) Would it be correct to say that there are three classes of measures which the Bank did adopt, or may legitimately adopt; first, the raising the rate of interest upon discounts; secondly, other measures of restraint with respect to commercial accommodation; and thirdly, under possible circumstances, the sale of public securities, all with a view to maintaining or restoring its reserve?—The sale of public securities has not the effect of altering the state of your reserve. The charging of high rates upon bills discounted has that indirect effect, inasmuch as it renders the value of money higher in this country, and renders bills in this country more difficult of negociation. The same effect is produced by putting a restraint upon the term of the bills which you discount. The bills upon this country are rendered fewer by the difficulty of negociation, and the high price at which they are obliged to be negociated. The sale of public securities by the Bank is in reality nothing more than the transfer of the capital of the Bank from one series of security to another species of security, for the money which the Bank draws in by the sale of public securities is immediately taken out again by the wants of the discount market; the amount of capital in the money market at the time being only just sufficient for all the wants of the money market. If therefore you withdraw money from the stock market, it must be issued again to the discount market.

299. Is that true to such an extent that you can say that the sale of public securities has produced no perceptible effect upon the reserve of the Bank?—I think it is so.

300. With all the fears of the public, when a drain has existed, you consider that the anxiety and the true prudence of the Bank is now, and has been for a considerable time past, directed not to the provision of bullion as a security for the convertibility of the notes, but to the provision of cash in gold and notes together, in order to maintain your banking reserve?—The banking reserve consists of the notes not employed in active circulation. As the active circulation of the notes is issued partly upon securities, that is, to the extent of £14,475,000, and the rest upon bullion, the banking reserve is, in point of fact, a reserve of bullion. Thus nothing affects the banking reserve but a demand for bullion either for the internal wants of the country, or for the purposes of export. The rule, therefore, which the Bank has followed in managing its banking affairs, is to regard the banking reserve as affected by the demand for bullion.

301. But when you have had occasion to desire an increase in the stock of bullion, am I to understand that this has not been because more bullion was wanted to secure the convertibility of the note, but that it was because more bullion was the basis of a larger issue of notes, and an increased issue of notes was desirable, with reference to the state of your reserve?—That is so.

302. Having in view the answers that you have given with reference to the state of your banking reserve, as the great object of care and attention under the present law, do you think that the provisions of the present law are the best that could be adopted in order to enable you to maintain the reserve in a satisfactory state?—I think that the provisions of the present law as to issue little affect the state of our reserve, the provisions being that there shall be only a fixed amount issued upon securities. The fluctuation of the bullion, which is the index of the fluctuations of the wants of the commerce of the country, must be the measure of the fluctuations of the reserve; and that must be the case, I think, under any system of law with regard to the circulation which you may enact.

303. Do not the provisions of the law with respect to issue, act powerfully upon your measures with regard to the maintenance of your reserve, somewhat different now from what it was before

the Act of 1844?—Before the Act of 1844 it was not necessary to keep a reserve other than the bullion which was in our coffers. That was your reserve. When you were called upon for any sudden demand you issued notes, and, of course, that varied the proportion of your bullion to notes.

304. Therefore your position has been materially changed by the Act of 1844 with reference to your power over your own reserve at any given moment?—Yes, with reference to our power over the bullion; not over the reserve, but over the bullion.

305. Looking at that difference in your power with respect to the issue of notes, have you any improvement to suggest in the provisions of the present law, or do you think that they are not susceptible of any improvement?—I think that no other rule that you could adopt would be so simple and of so ready application as the present law.

306. A foreign drain has been the principal cause of pressure during the period when you have been Governor and Deputy-Governor of the Bank?—Yes, that has been the chief cause.

307. Your power of checking a foreign drain has consisted of raising the rate of discount upon bills and other measures having reference to the restriction of commercial accommodation?—That has been the power which we have used.

308. It is by raising the rate of discount that you have expected to restore your reserve of bullion to a safe and satisfactory amount after it has fallen below that amount?—Yes.

309. Do you think that it would be impossible to frame a law which should establish directly a relation between the rate of interest and the stock of bullion, which relation is now maintained by the action of the Court of Directors in raising the rate of interest?—I do not think it would be possible to frame a law which would necessarily involve the consideration of the rate of interest in foreign countries, and the peculiarity of the demand for bullion upon this country.

310. Would it be possible to frame a law which should provide that over and above an issue upon a fixed amount of securities, and over and above an issue against bullion, there might be a

further issue upon securities limited by a certain rate of interest, which rate of interest should increase as the stock of bullion in the Bank diminished?—I think that would be a prejudicial measure. The effect would be an increased issue upon securities, and the only safeguard would be the high rate of interest at which it was issued. Now, the high rate of interest calculated upon the exchange of bills between this country and foreign countries would have so small an effect upon the rate of exchange, as not to afford a sufficient guarantee that large new transactions affecting the balance of trade already existing against this country might not be entered into. For instance, supposing the rate of interest at present to be 6 per cent., you would allow an increased issue upon securities at the rate of 8 per cent. per annum. The difference between these two rates, namely, 2 per cent. per annum, reckoned upon a three months' bill (which is the ordinary currency of bills upon this country from the continent), is in reality only one-half per cent.; one-half per cent. reckoned in exchange between Paris and London is only 12 centimes; 12 centimes is not an unfrequent variation in a single post-day. Therefore it would be no sufficient security that large new transactions still more prejudicially affecting the balance against this country might not be entered into under such circumstances.

311. Setting aside for the moment minor measures of commercial restraint, is not the rate of interest now the great restriction to which you look for bringing back the bullion to this country?—In that respect there is a difference of opinion among the Directors. I look more to the restraint which is placed upon the term of bills than to the rate of interest. The restraint upon bills according to my view acts in this way; in the first place, it renders difficult the negociation of bills of a long date, and thereby tends to diminish the number of bills which are drawn at that date, because it is not convenient for importers to import produce, unless they have sufficient time to be able to realise the produce in order to meet the bills. If, therefore, they cannot readily negociate their bills for produce which they import into this country, they will naturally restrict their transactions, and the number of bills upon this country will diminish; and that is the meaning of the correction of an adverse exchange; an adverse

exchange means nothing more than the number of bills upon this country exceeding the number of bills which this country has drawn upon other countries. The effect also of limiting the advances to short periods, as regards the Bank of England, is, that it brings back your reserve much quicker. You are enabled also to accommodate a larger number of persons, though for a shorter time, and by rendering money easily obtainable for shorter periods, although it may be at a high rate, you prevent any great feeling of alarm which the public probably might feel unless they found money readily at hand, although only for a short period.

312. Is it your practice at certain periods to refuse to discount long bills for the public as well as for the bill brokers?—We have never refused to discount bills having less than 95 days to run, but we have charged an increased rate upon long bills in order to encourage the presentation of short bills.

313. If you have only charged an increased rate of interest upon long bills without refusing them, then we revert to the position that the rate of interest has been the effective check and the effective means of restoring the bullion?—But those long bills are rendered more difficult of negociation than shorter bills.

314. At the time when, as you stated to the former Committee, you limited your advances to the discount brokers, by insisting upon their bringing in only bills having not more than 30 days to run, had that measure an important effect in diminishing the number of long bills discounted?—It had the effect of diminishing the number of long bills presented to the Bank. It also had the same effect as a discriminating rate by enabling the discount brokers to charge a higher rate upon all bills presented to them, inasmuch as they were obliged to provide short bills for the purpose of raising money at the Bank, and for that accommodation of course they took advantage by charging higher rates upon the long bills offered to them by their customers.

315. Of course a larger proportion of long-dated bills reach the Bank usually through the medium of the bill-brokers as compared with the proportion which reaches the Bank directly from the public?—The larger proportion of all the bills which the Bank discounts comes through the discount brokers.

316. Are you then disposed to think that, upon the whole, the restrictions upon bills, other than the simple raising of the rate of discount, are quite as important and effective in restoring the exchanges as the measure of raising the rate of interest?—I think quite. In my view they are rather more so than the mere raising the rate of discount in such a degree as should be within moderate limits. I do not mean to say that if you raise the rate of interest to 10, 11, or 12 per cent., the same effect would not be produced. Indeed by raising the rate of discount you act morally upon the number of bills produced, by the increased difficulty which people find in negociating them.

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326. In expressing an opinion that the limiting the term of bills of exchange was a more effective measure for the purpose of restoring the bullion than the mere rise of the rate of discount, you stated that there was a difference of opinion between yourself and some of your colleagues upon that point. Are you prepared to inform the Committee which opinion is the general opinion of the Court upon that subject, if there is a general opinion in the Court upon the subject?—I must say that the opinion of the Court fluctuates very much. At times the opinion which I advocate is in the ascendant, at other times the opinion that a uniform rate of interest is the best, has the preference.

327. You are not prepared to say that there is one permanent, prevailing sentiment in the Court upon this subject?—No, there is not.

(*Mr. Neave*) May I observe that the question appears to draw a contrast between them as two distinct measures. Now I think the Court look upon them rather as simultaneous and concurrent measures. Those who take the view with Mr. Weguelin, that the limitation of the term of the bills is a stringent measure and a very effective measure as regards the exchanges, do not lose sight of the important and real effects of it, which consists chiefly in raising the value of money. But the Court look mainly to the raising of the rate of interest as the mode of protecting the bullion.

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MARKET RATE AND BANK RATE

Evidence of THOMAS MATTHIAS WEGUELIN, formerly Governor of the Bank of England, and SHEFFIELD NEAVE, Governor of the Bank of England, before the Select Committee on Bank Acts, 19th May 1857.

The CHANCELLOR OF THE EXCHEQUER in the Chair.

(See Parliamentary Papers, 1857, Session 2, vol. x, part i.)

475. (*Chairman*) You are doubtless aware that an impression prevails at present on the part of many persons that the Bank of England have the power of arbitrarily determining the rate of discount; and that whatever they fix as the rate of discount is followed by the private discounters. Is that a doctrine to which you accede?—Certainly not; the Bank of England has a limited power over the money market during certain periods of the quarter, when public balances are accumulating, and when there is no money to be had except at the Bank of England. Then it has a certain power of raising the rate of interest, but that again finds its level the moment the public monies come out in the shape of dividends.

476. Do you believe that the rate of discount is fixed by the competition in the market, and that in fixing a certain amount for their own discounts the Bank follow and do not lead?—They invariably follow in a decline of the rate of discount; and I should say also they practically follow in a rise; but there is no doubt that the Bank, when there is a rise in the rate of discount, has a greater power over the money market of fixing the rate of interest for a short period, than it has in the case of a decline in the rate.

477. (*Mr. Gladstone*) Is the Committee to understand that the power of the Bank of England of determining the course of other parties with reference to the rate of discount is much greater towards the close of the quarter than it is at other times?—Yes, I think it is.

478. Was that the increased power of the Bank over its reserve to which you alluded some little time ago, with reference to the unequal distribution of public payments at different periods of the year?—That is what I referred to.

479. (*Chairman*) But still, while the Bank sometimes raises the rate of discount, private discounters often charge higher rates than the Bank?—Yes; generally speaking, when money is scarce, the private discounters or discount brokers have to come to the Bank of England, and they must charge a higher rate in order to make a profit by the transaction.

480. What do you conceive to be the principal circumstances which determine the market rate of discount as distinguished from the market rate of interest for fixed securities?—The market rate of discount is the price you pay for a deferred payment. The rate of interest is for a permanent annuity. The two things in my view are of a totally different character. In the one case you engage to pay back the money at a certain short period; and in the other case you engage merely to pay the money annually, extending over, perhaps, a considerable portion of time. The one, therefore, has to do with floating capital, and the other may be of a permanent character.

481. Is not the rate of discount principally determined by the relation which the floating capital of the country bears to the amount of the advances upon mercantile paper at any given moment?—I think that is so.

482. That being the case, can it be conceived that the Bank of England can have any greater power, taking any considerable period of time, over the rates of discount?—No, it has no other power than what is given to it by the state of the floating capital of the country, and the portions which the Bank itself holds.

483. Does it not sometimes happen that the rates of discount vary and fluctuate without any reference to the price of consols, for instance, or the rate of interest upon money lent on mortgage?—Certainly, without any reference or with very small reference to those.

484. Then, when it is said that the Bank of England have a power over the rate of interest, all that is meant in fact is, that it may, to a certain extent, influence the rate of discount?—That is all; the Bank has no power over the rate of interest.

485. But even with regard to the rate of discount, your opinion is, that the influence of the Bank is very limited, and that, in

fact, the rate is principally fixed by competition in the market?—Yes, I think that is the case; the competition in the market being governed by the amount of floating capital at the time applicable to that particular transaction.

486. (*Mr. Cayley*) So that you would say, that the rate of interest, or the rate of discount, depends upon the state of the reserve?—The Bank, of course, charges a certain rate of interest, depending upon the state of the reserve.

487. When the reserve is considerably reduced, or begins to be reduced, they raise the rate?—Yes.

488. Does not the Bank under those circumstances precede the rate which bankers and discount houses charge?—I think it will be found practically that the market rate has always risen higher than the Bank rate.

489. Is it not a fact, that the London bankers, for instance, follow the Bank in raising their rates, as a general rule?—They follow the market rate; they do not follow the Bank.

490. Is it not the fact, that the London banks generally allow a rate of interest upon deposits, for instance, bearing a certain proportion to the Bank rates?—I believe the rule with Joint-stock Banks that allow interest upon deposits, is to allow interest of 1 per cent. per annum below the Bank rate of charge.

491. Then the private banks and the joint stock banks, in point of fact, follow the rate which the Bank has prescribed?—They follow the rate charged by the Bank, as the rate of discount.

492. Do they ever anticipate the Bank in the rate charged for money?—Yes; they constantly anticipate the action of the Bank; they do not bind themselves to it.

493. I am speaking now of the general practice; do not the bill brokers and the banks generally alter their rate just as the Bank alters?—No; when the Bank is holding the reserve of the country, which is being acted upon by the demand for floating capital, is in such a position as to be able to prescribe its terms for the loans which it makes, then in point of fact the market rate and the Bank's terms become identical. If, therefore, a discounter or a banker requires money from the Bank of England under those

circumstances, they must guide themselves by the Bank rate in order to make any profit by the transaction.

494. Then do you mean to say that the private and the Joint Stock Banks in London, and the discount brokers, make no alteration in their rates immediately after there is a change in the rate declared by the Bank of England?—Certainly, they always do, because they look upon the Bank rate as the index of the market rate.

495. I asked you before if they ever anticipated the Bank in raising the rate: can you give any instances of their doing so?—I think that is a daily occurrence; the bankers anticipate the action of the Bank. They raise their demands sometimes before the Bank has raised the rate of interest, and they often lower the rate of interest before the Bank has lowered its rate.

496. But as a general rule do they?—I think that as a general rule there is so active a competition amongst the bankers, happily that when there is an abundance of capital they are always anxious to lend it. If one bank in Lombard-street will not lend at a certain rate, probably another may be found that will, without reference to the Bank rate of charge at the time.

497. Did you ever know such a case as this to happen, that the Bank, knowing what the state of the reserve would be a week hence before the publication, and knowing that the result would be very favourable, yet have not determined upon a fall in the rate of discount, and that yet the Private and Joint Stock Banks and the brokers generally, in such a state of things, have anticipated that fall of interest?—Yes, certainly.

498. As a general rule have you known that to happen?—Constantly.

499. (*Mr. Glyn*) Do you not often find a very large demand upon your reserve, in consequence of the pressure upon the money market, and the bill brokers sending to the Bank of England to take a large quantity of notes before you make up your minds to raise the rate of discount?—That they constantly do; not that it affects our reserve, because the money generally comes back in the shape of deposits, but it no doubt affects the demands upon

us most materially; the bill brokers find that there is a scarcity of money in the market, and there is a great demand for it, and they anticipate consequently that the rate of the Bank of England will rise, and they send in very large amounts for discount.

500. (*Mr. Cayley*) But that is in expectation of your reserve being affected?—Not materially so. The Bank of England reserve is not always affected by the demands upon it for discounts. It is affected if those demands upon us for discount, when satisfied, are used for the purpose of exporting bullion; but very large transactions may take place; for instance, the Bank may discount a million and a half in a day, and that is done constantly, without its reserve being in the slightest degree affected, the notes coming back again as deposits, and no other alteration taking place than the mere transfer from one account to another. If, however, the power given to the discounters is used for the purpose of taking gold from the Bank and exporting it, or for the purposes of internal circulation, that it is which affects the reserve of the Bank.

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THE SEPARATION OF DEPARTMENTS OF THE BANK OF ENGLAND

Evidence of WILLIAM NEWMARCH before the Select Committee of the House of Commons on Bank Acts, 5th June 1857.

(See Parliamentary Papers, 1857, Session 2, vol. x, part i).

1355. (*Chairman*) You are aware that by the Act of 1844 the separation between the two departments of the Bank, the issue department and the banking department, was introduced for the first time?—Yes.

1356. What is your opinion of the expediency of that separation? —I consider that scientifically there was no sufficient reason for that separation; and I consider that, as a matter of practice, the separation has operated mischievously.

1357. Can you point out the mischievous effects which you think it has produced?—The first mischievous effect, as it seems to me, which has arisen from that separation of departments, and as a necessary consequence from the cutting in two of the reserve of bullion, has been, that the banking business of the Bank of England, that is to say, the whole of that part of the operation

of the Bank of England which brings it more immediately into contact with the commerce of the country, has been carried on upon a moiety only of its former amounts of reserve. Out of that division of the reserve has arisen, therefore, this state of things, that whenever the reserve of the banking department has been diminished, even to a small extent, it has rendered necessary an action by the Bank upon its rate of discount. That diminished reserve, therefore, has produced a frequent succession of changes and jerks in the rate of discount charged upon advances. Now a constant occurrence of those changes in the rate of discount, I imagine, is admitted on all hands, to be in itself, if not distinctly an evil, at least a very undesirable state of things.

1358. Do you think that these variations in the rate of discount have been greater under the operation of this law than they would have been if the separation had not been effected?—I imagine that to be a statement to which hardly any person would demur. I think that is so clear on the face of the facts, that there is hardly room for two opinions upon it. The alterations since 1844 have been some 60 in number, whereas, the alterations prior to 1844, in the same space of time, certainly did not amount to a dozen.

1359. You ascribe the fluctuations in the rate of discount, since that time, not to natural causes and to the effect of the competition in the market, and the ordinary operation of supply and demand, but to the operation of the Act of 1844?—Distinctly to the operation of the Act of 1844, and distinctly to the working out by the banking department of the Bank of England of the principle upon which that Act was formed and defended; that principle being that the function of circulation was to be placed under regulations which were considered to amount to a mechanical principle, and that the functions of banking, as regards the Bank of England, should be carried on by the directors precisely in the same way as the functions of banking are carried on by any of the large houses in Lombard-street. Out of the operation of that principle has arisen the circumstance, that whenever there has been, as in the year 1853, an accumulation of reserve in the banking department, the Directors of the Bank of England, acting, as they considered, in strict conformity, or rather, it may

be said, in necessary obedience to the principle of the Act of 1844, have endeavoured to turn the reserve to profitable advantage by reducing their rate of discount. Their rate of discount was then reduced to $2\frac{1}{2}$ per cent., whereas prior to 1844 the lowest rate to which the Bank had ever reduced its rate of discount was 4 per cent.

1360. Then you think that the Bank reduced its rate of discount lower than it was prudent to do?—I think so. I may say here, that my investigation of this question has led me to entertain a somewhat strong opinion, that for reasons of general policy, as regards the trade of the country, it is not desirable that the rate of discount of the Bank of England should ever be less than 4 per cent.

1361. Is that a limit which you would fix by law?—No; I object to the introduction of a positive statute at all upon the subject. I do not think that the administration of an institution like the Bank of England should be interfered with and prescribed by a statute, but that it should be left as it was prior to 1844. Prior to 1844 there was no law which said that the Bank of England should not have a lower rate of discount than 4 per cent., but that was the traditional policy. There was a general understanding, that that was a fit and desirable state of things.

1362. You think, then, that, as a matter of prudence, the Bank Directors would act wisely in adopting 4 per cent. as their minimum rate of discount?—I think they would.

1363. Do you think that, since 1844, they have raised their rate of discount unnecessarily in any instances?—I think that there have been cases since 1844 in which the Bank Directors have been compelled to raise the rate of discount to a higher point than it need have been raised to but for the previous undue reduction. That seems to me to be a summary of most of the practical objections to the working of this law, namely, that the variations in the Bank rate of discount are between very extreme points;—as we have seen, between 2 per cent. in the one case, and 8 per cent. in the other; and those extreme variations have arisen, as it seems to me, as a necessary consequence of the principles and the policy laid down in the Act of 1844; those principles and that policy distinctly placing the Bank of England

upon the same footing (to use the phraseology then employed) as any other banking establishment.

1364. In what respect do you think that the Bank of England ought to be differently managed from any other banking establishment?—I think there is a very important distinction between the Bank of England and all other banking establishments. In the first place, as regards the magnitude; the amount of the funds disposed of and wielded by the Bank of England being so many times greater than the amount of funds wielded by any other single institution. In the next place, there is a moral prestige connected with the Bank of England; any decision which might be taken by any other single house in London, whatever its magnitude or standing might be, would not have a tenth part of the effect which we know, as a matter of common observation, is always connected with the movements of the Bank of England, and with the changes of the rate of discount on the part of the Bank of England; beyond that, it is perfectly clear, I think, not merely from the experience of the last few years, but from the experience of a very considerable period, that the reserve of bullion in the Bank of England is, in truth, the central reserve or hoard of treasure upon which the whole trade of the country is carried on. It is a kind of pivot upon which the whole trade of the country is made to turn; all the other banks in the country look to the Bank of England as the central hoard or reservoir from which they are to draw their reserve of coin; and it is upon that hoard or reservoir that the action of the foreign exchanges always falls.

1365. When you speak of the erroneous system of management which you say was established by the Act of 1844, do you refer to the great practical principles of management, or do you refer to some theoretical principles laid down by the supporters of the Act?—I refer rather to the practical principles laid down by the legislation of 1844.

1366. Will you state what you conceive to be the erroneous practical principles of management introduced by that Act?—The first of those erroneous principles, as it appears to me, was the forming the Bank into two departments, with the view of attaining a specific reserve of treasure against the circulation of

notes; I have endeavoured to state that the holding of that reserve has compelled the banking department, which is in reality and truth that division or that department of the Bank in which the public has most concern, to carry on its business upon a much smaller amount of treasure, and the variations in that smaller amount of treasure have necessarily compelled the Bank to introduce changes in its rate of discount more frequent and more violent than prevailed before. Those frequent alterations in the rate of discount are in themselves an evil; and beyond that it was distinctly laid down in 1844, that the banking department of the Bank of England might be managed in the same way as any ordinary banking establishment. The effect of that doctrine has been, that the Directors of the Bank of England have considered themselves not merely at liberty, but, to a certain degree, I believe, have considered themselves bound, to enter into competition in the way of discount, in times of cheap money, with the houses in Lombard-street; and I think it might be shown, that when the rate of interest has been low, the lowering from time to time of the Bank rate has driven the rate lower than it would have fallen to otherwise; and when the tide has turned, and when capital has become of greater value, the Bank has been compelled, from the nature of the case, not to lead the way, but to follow in the wake of other dealers in money; and thus, owing to the manner in which these causes have acted, the one upon the other, the state of things which has practically prevailed since 1844, has been one of much greater danger, and of much greater suffering to the public, than it would have been but for the operation of this Act.

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THE MANAGEMENT OF THE BANK

Evidence of WILLIAM NEWMARCH before the Select Committee of the House of Commons on Bank Acts, 5th June 1857.

The Chancellor of the Exchequer in the Chair.

(See Parliamentary Papers, 1857, Session 2, vol. x, part i.)

1394. (*The Chairman*) You are aware of Mr. Tooke's opinion on the subject of a reform of the governing body of the Bank of England?—I am.

1395. Will you state shortly to the Committee what his recommendations are; you will find them at page 603?—The plan I think is contained rather in a subsequent page; in page 624, vol. V., Mr. Tooke says, ' The object of the plan which I propose, is to remove and remedy these objectionable features of the present system; 1st. By giving greater permanence to the constituent parts of the direction; 2d. By enforcing more deliberate discussion and applying precautions against hasty and capricious decisions. The main features of the change which I would suggest, are three governors instead of two; namely, a governor, sub-governor and deputy-governor; the three governors and twenty-four directors to be elected for three years instead of one year, as now; the three governors to be re-eligible at each period of triennial election; the two governors under the present system are re-eligible for election by the directors for a further term, but the practice has been against re-election, except under peculiar circumstances, such as the two last renewals of the charter, when the governors were continued in the chairs for one year longer. Of the twenty-four directors, twenty only to be re-eligible at the end of the three years '; and then the passage proceeds into detail. The general object of the change suggested by Mr. Tooke was with the view of introducing greater permanency into the really executive part of the Bank.

1396. Do you believe that those alterations would have the effect of improving the management of the Bank of England?—I do.

1397. Do you think they would have any considerable effect?—I think they would, as far as I can judge.

1398. What do you consider to be the defects of the present administration as regards the constitution of the governing body; do you consider that it produces changes of principles and fluctuations in the rules of management?—Those are questions upon which a young man like myself must speak with great diffidence. I have had the advantage of discussing these questions very fully with Mr. Tooke, and I agree, I think, entirely with the plan suggested in his volume. The objections, as it appears to me, to the present system (I make the observation, of course, with every possible deference to the judgment of the elder members of the

Committee), are, first, that the really executive part of the management of the Bank of England is subject to a frequent change of those persons who are specially responsible for it; the Governor, for example, holds office for two years; the Deputy Governor holds office for the same period of time; the term of service, therefore, in the offices of Deputy Governor and Governor amount to four years. It is also, I believe, generally understood to be the fact, that while changes in the rate of discount may be effected by the mere will or discretion of the Governor, in point of fact those changes in the rate of discount, and changes generally in the policy of the Bank as regards its securities, &c., are determined upon by a mere majority of its Thursday Court of Directors; and I think it is also understood that it is quite competent for any member of the court at the Thursday meeting to propose any change; and if that change be sanctioned by a mere numerical majority, it may be by no more than a single vote, it is thereupon carried into effect.

LEVEL OF THE BANK RATE

Evidence of WILLIAM NEWMARCH before the Select Committee of the House of Commons on Bank Acts, 5th June 1857.

(See Parliamentary Papers, 1857, Session 2, vol. x, part i.)

1434. (*The Chairman*) Do you consider that even if there had been no such restriction as that which is imposed by the Act of 1844, when the Bank Directors found the applications for discount constantly increasing, and the securities which they held constantly increasing also, and when they found their deposits at the same time somewhat diminishing, they could be acting imprudently by raising their rate of discount, such applications continuing to come upon them for discount?—If I understand the question, it relates first to what happened in May 1854; to that I have endeavoured to give an answer; the substance of the answer being that, supposing the Bank in May 1854 not to have been fettered or interfered with by the Act of 1844, I see no reason why a reduction to so small an extent as £3,000,000 out of £16,000,000 should of necessity lead to a rise in the rate of discount from 5 to 5½ per cent. Then, if I rightly understand the question, it is further an abstract question relating to a supposed case, namely, supposing a case in which the Bank of England, or any other

bank, finds its securities increasing, in other words, its applications for advances increasing and its deposits decreasing, and its reserve decreasing, whether under such circumstances the Bank ought in prudence to raise its rate of discount. My answer to that question is, that if the Bank has any regard to its own safety, and any dislike to come under the operation of the Bankruptcy Court, there is only one course open to it, namely, to raise the rate of discount, and to limit its advances.

1435. Having taken that course once, if the same cause is found to be again in operation, and they find continued applications to them for advances, and a continued diminution of their resources, that is to say, their deposits, would they not be justified in again taking the same step on finding their reserve of bullion diminishing?—No doubt, in that abstract case, a banker must go on raising his rate of discount, and diminishing his advances, till he brings himself into a better position.

1436. That, I understand, to be your opinion upon this point, as an abstract proposition, quite independently of any control by the Act of 1844?—I am now speaking of an abstract case.

1437. Then do you see any limit to which a bank may not go for its own protection in continuing to raise the rate of interest?—Speaking of it as an abstract case, I imagine not.

1438. Having then acted upon that plan of advancing the rate of interest according to the pressure upon you for discounts, supposing, for instance, that it got up to a rate of 7 or 8 per cent., and that after a time the applications greatly diminished or appeared to cease, would you consider yourself justified under those circumstances in continuing that high rate?—I am still answering these questions purely from an abstract point of view, and without reference to the Bank of England, or any other supposed bank. I should say certainly not. It is the business of a banker to accommodate himself to the state of things that he finds around him.

1439. Would it not follow, then, that the rate of discount may properly be raised either rapidly or continuously from time to time, and may in like manner be diminished from time to time?—It may happen in the general market, and does happen.

1440. Do you consider that that action of alteration in the rate of discounts from such causes is any indication of any injury being sustained by the country?—I think that all variations in the rate of discount in the money market are in themselves undesirable, and that they may become so frequent and so violent as to become distinct causes of mischief; I have said nothing, I think, to-day which would justify the inference that I maintain in the least degree the belief that it is in the power of the Bank of England to regulate permanently the rate of discount. All that I have intended to say amounts to this: that I consider that as the reserve of the Bank of England differs fundamentally from the reserve which is found in any other bank, the reserve of the Bank of England being the reserve of the whole nation, and being that hoard or reservoir upon which any drain arising out of the foreign exchanges acts almost exclusively, I do not think it a desirable state of things that the Bank of England should enter upon a system of open competition in the money market. It is for these reasons that I venture to suggest that the minimum rate of the Bank of England should never be less than 4 per cent., whatever it may be out of doors.

1441. Then when there is a descending scale of the rate declining below 4 per cent., and applications for discount have ceased, and money is beginning to accumulate in the Bank reserves, do you think it is inexpedient, as a banking principle, that that money should be employed?—I have already said, that I do not think it desirable that the rate of discount at the Bank of England should fall below 4 per cent.

1442. In that case, when money does not bear 4 per cent., it is certain that people will not apply any longer to the Bank for discounts?—That is quite certain.

1443. Therefore it is probable that money will accumulate in the hands of the Bank of England?—I think that is quite certain.

1444. You think that the Bank of England at such a time ought to act differently from an ordinary prudent banker on account of its peculiar position?—I do.

1445. You admit that, as an ordinary rule, a prudent banker must vary his rate according to the rise and fall of the market, if he

wishes to employ his money in discounts?—Yes, that is the nature of his business.

1446. But you think that when the rate is below 4 per cent. it is inexpedient for the Bank to be a discounter at all?—Yes, I do.

1447. Whenever the rate of discount is below 4 per cent., you think the Bank of England ought to cease to be a discounter?—I do. I think it ought not to reduce its rate below 4 per cent.

1448. In what way would you have the Bank employ the deposits of the Government which are left in their hands and which accumulate from the point of zero up to a large amount previously to the payment of the dividends; would you allow that money to remain in the Bank unemployed, if the Bank could not employ it at 4 per cent.?—Mr. Hankey knows much better than I do that the Bank of England have a variety of ways of employing the capital which happens to be in their hands. The discount of bills of exchange is only one of those modes. It by no means follows that because the Bank of England choose to stop short at the rate of 4 per cent., as regards their discounts, therefore the Bank of England are, from the necessity of the case, precluded from employing their money at all. There are various modes in which the Bank may employ any funds it may have. There is investment in Exchequer bills; there is investment in stock; there are advances on railway debentures, and a variety of modes in which money may be employed.

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1452. Have you never heard it stated, that previously to 1844, or previously to the time when the Bank never lowered their rate of discount below 4 per cent., they found this very great inconvenience, that whenever the rate came up to 4 per cent., then, not from any action of the Bank, but from the action of the ordinary rules which govern the supply and demand of money, the Bank were suddenly called upon, and expected to discount, perhaps, a very large amount of bills of exchange, when from having been previously without any bills of exchange at all for a long time, they found very great inconvenience in carrying on the business, being totally ignorant, and much more ignorant than it was desirable they should be, as to the credit of parties, and

as to the nature of those securities in which they were then commencing to invest their money?—That is a question which seems to resolve itself into the competency of the Bank Directors. I do not know that it would be desirable to provide by law for keeping the Bank in a state of perfect information as to the character of the bills that come before it for discount; that seems not to be the question before us to-day. But reverting again to what happened before 1844, I confess I never have learnt in the course of my investigation of these questions, that there was found to be any extreme inconvenience, either as regards the public or the Bank, from the system which prevailed at that time, namely, that the Bank's rate of discount as regards bills of exchange should not be less than 4 per cent. There were certain arrangements by which the Bank might make advances till what was called the 'opening'. Those advances being made upon the security of India bonds, and upon the security of Exchequer bills, and upon the security of Consols, those advances being entirely of a special nature, being only for three weeks or a month, and being made at a time when the rate of discount was less than 4 per cent. That arrangement, as far as I am aware, was found completely to meet the necessities of the case.

1453. Then you would have no objection to the Bank employing its deposits at a lower rate of interest than 4 per cent., provided it did not take bills of exchange as the security?—I have no objection to the Bank employing its deposits as they did employ them under the special circumstances of the case, prior to 1844.

1454. You have no objection to the Bank employing its money at a lower rate of interest than 4 per cent., provided it does not employ it in bills of exchange?—That is somewhat a question of definition. If the Bank of England say, on the one hand, that their rate of discount of bills of exchange is 4 per cent.; and if they say, on the other hand, that their rate for advances, which correspond in all particulars to bills of exchange, is less than 4 per cent., the only answer seems to be that the minimum rate of discount is something less than 4 per cent. It may, probably, enable us to see the answer to Mr. Hankey's question more clearly, if we bear in mind that the advances which were made

prior to 1844, with a view to the ' opening ', as it was called, were advances of a special nature. Mr. Hankey has correctly stated, that, towards the end of each revenue quarter, there is an accumulation in the hands of the Bank of England of funds destined to pay the public dividends. That accumulation of funds in the hands of the Bank of England, unless some mode of relief were found, would no doubt be a considerable inconvenience. The mode of relief that was found was by the Bank of England issuing a notice, about three weeks or a month before the termination of the revenue quarter, to the effect that they were prepared to make advances at the market rate of interest at the time, upon the deposit of certain mercantile securities. That practice seems to me to be perfectly consistent with the practice of the Bank maintaining the rule of not discounting at a lower rate than 4 per cent.

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1456. (*Mr. Hankey*) Then you do not object to the Bank lending money for short periods at a lower rate than 4 per cent., provided that they do not lend it on bills of exchange?—To that question I would say yes, provided that ' yes ' be construed in connexion with the answer I have given to former questions.

1457. You admit, however, that as an ordinary banking operation, money deposited for short periods cannot be better employed than in discounting bills of exchange?—That has generally been found to be so, by the experience of bankers.

1458. And you would be willing, in consideration of the other duties, that the Bank has to perform, to deprive the Bank of their only means of employing that money so deposited for short periods, whenever the rate of interest was below 4 per cent.?—I think the rate of discount should not be below 4 per cent. at the Bank of England.

1459. But you have no objection to its being any rate above that?—I have no objection to its being any rate above 4 per cent.; that is not a matter of option, it is often a matter of necessity.

1460. You have stated that you thought that the Bank had no power in itself of affecting the rate of interest?—I think the Bank of England has no power, over any extended period, of deter-

mining the rate of interest in the market; but I think the Bank of England does exert a power over the rate of interest in certain conditions of the market; and I think that one of the mischievous effects of the Act of 1844 has been, that the Bank of England being brought into competition with the houses in Lombard-street, has had the effect, in a falling market, of driving down the rate of interest lower than it would have gone of its own accord, and of keeping it at a lower point for a longer period than it would otherwise have remained.

1461. But, in the long run, you think that the Bank has no power of either raising or lowering the rate of interest?—In the long run, distinctly not.

1462. With respect to the power of the Bank to increase its issues, the present current rate of interest at the Bank being 6½ per cent., do you think that if the Bank were to say to-morrow, that they would lower their rate of interest to 4 per cent., there would be any probability of the issues of the Bank being thereby increased?—It would be extremely improbable. I do not think, even if the rate of discount was cut in half, and the Bank's rate for advances was reduced to 3 per cent., that in consequence of that change, a greater number of Bank notes would be placed in active circulation.

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CORRESPONDENCE BETWEEN THE GOVERNMENT AND THE BANK OF ENGLAND IN THE CRISIS OF 1857

(See *The Economist*, 14th November 1857.)

To the Governor and Deputy-Governor of the Bank of England.

Downing Street, November 12.

Gentlemen:

Her Majesty's Government have observed with great concern the serious consequences which have ensued from the recent failure of certain joint stock banks in England and Scotland, as well as of certain large mercantile firms, chiefly connected with the American trade.

The discredit and distrust which have resulted from these events, and the withdrawal of a large amount of the paper circulation authorized by the existing Bank Acts, appear to Her Majesty's Government to render it necessary for them to inform the Bank of England that if they should be unable in the present emergency to meet the demands for discounts and advances upon approved securities without exceeding the limits of their circulation prescribed by the Act of 1844, the Government will be prepared to propose to Parliament, upon its meeting, a bill of indemnity for any excess so issued.

In order to prevent this temporary relaxation of the law being extended beyond the actual necessities of the occasion, Her Majesty's Government are of opinion that the Bank terms of discount should not be reduced below their present rate.[1]

Her Majesty's Government reserve for future consideration the appropriation of any profit which may arise upon issues in excess of the statutory amount.

Her Majesty's Government are fully impressed with the importance of maintaining the letter of the law, even in a time of considerable mercantile difficulty, but they believe that, for the removal of apprehensions which have checked the course of monetary transactions, such a measure as is now contemplated has become necessary, and they rely upon the discretion and prudence of the Directors for confining its operation within the strict limits of the exigencies of the case.

We have, etc.,

(Signed) PALMERSTON.
G. C. LEWIS.

The following is a copy of a letter addressed by the Directors of the Bank of England to the Government in reference to their issues since the 12th ultimo (12th November 1857).

(See *The Economist*, 5th December 1857.)

Bank of England, 2nd December 1857.

My Lord and Sir:

We have the honour to acknowledge the receipt of your letter

[1] The rate was 10 per cent., raised to this point on November 10.

of the 27th instant (*sic* in *Economist*), requesting 'such an explanation with respect to the course which the Directors of the Bank of England have pursued in regulating their issues of notes since the 12th instant, as they may be able to furnish for the information of Her Majesty's Government.'

In complying with this wish, it may be well to allude to the position of the Bank of England accounts anterior to the receipt of the letter of the 12th.

On the 24th October, the bullion in the issue department was £8,777,000; the reserve, £4,079,000; the notes in the hands of the public, £19,766,000; the discounts and advances, £10,262,000; and the deposits, £16,126,000; the rate of discount at the Bank being 8 per cent. for bills having not more than ninety-five days to run.

In the following week a great shock to credit and a consequent demand on the Bank of England for discounts arose, from the failure of the Liverpool Borough Bank, whose re-discounted bills were largely held by the bill brokers and others in London. The effects of this and other failures, however, up to this time, had not occasioned any alarming pressure on the resources of the Bank, or great disquietude in commercial affairs in London.

On the 5th of November the reserve was £2,944,000, the bullion in the issue department £7,919,000, and the deposits £17,265,000. The rate of discount was advanced to 9 per cent. and on the 10th of November to 10 per cent.

The continental drain for gold had ceased, the American demand had become unimportant, and there was at that time little apprehension that the Bank issues would be inadequate to meet the necessities of commerce within the legalized sphere of their circulation.

Upon this state of things, however, supervened the failure of the Western Bank of Scotland, and the City of Glasgow Bank, and the renewed discredit in Ireland, causing an increased action upon the English circulation, by the abstraction in four weeks of upwards of £2,000,000 of gold, to supply the wants of Scotland and Ireland; of which amounts more than £1,000,000 was sent to Scotland, and £280,000 to Ireland, between the 5th and 12th of November.

This drain was in its nature sudden and irresistible, and acted necessarily in diminution of the reserve, which on the 11th had decreased to £1,462,000 and the bullion to £6,666,000.

The public became alarmed, large deposits accumulated in the Bank of England, money dealers having vast sums lent to them upon call were themselves obliged to resort to the Bank of England for increased supplies, and for some days nearly the whole of the requirements of commerce were thrown on the Bank. Thus, on the 12th, it discounted and advanced to the amount of £2,373,000, which still left a reserve at night of £581,000.

Such was the state of the Bank of England accounts on the 12th, the day of the publication of the letter from the Treasury. The demand for discounts and advances continued to increase till the 21st, when they reached their maximum of £21,616,000.

The public have also required a much larger quantity of notes than usual at this season, the amount in their hands having risen on the 21st to £21,554,000.

The Bank have, since the 12th, under the authority of the letter from the Treasury, issued 2,000,000 of notes in excess of the limits of the circulation prescribed by the Act of 1844, and have passed securities to the issue department to that amount.

That, however, is not the measure of the amount actually parted with by the Bank, which has not exceeded £928,000, the remainder of the 2,000,000 having been retained as a reserve of notes in the banking department, which, at the same time, also held £407,020 in coin.

We subjoin a statement of accounts from the 11th November to the 28th, inclusive, from which it will be apparent that the Bank continued to meet all demands for discounts and advances, on approved securities, to remedy the commercial discredit and distress mentioned in your letter of the 12th instant, 'as occasioned by the recent failure of certain joint stock banks in England and Scotland, as well as of certain large mercantile firms chiefly connected with the American trade', and aggravated by the subsequent embarrassment of large joint stock banks.

In discounts and advances, the sum supplied to the public

between the 12th November and the 1st December amounted in the aggregate to £12,645,000.

We have, etc.,

(Signed) SHEFFIELD NEAVE, *Governor.*
BONAMY DOBREE, *Deputy-Governor.*

To the Right Hon. The First Lord of the Treasury and the Right Hon. The Chancellor of the Exchequer.

THE BANK OF ENGLAND AND THE DISCOUNT MARKET

Evidence of the GOVERNOR and the DEPUTY GOVERNOR of the Bank of England before the Select Committee of the House of Commons on the Bank Acts, 1858.

SHEFFIELD NEAVE, Esq., and BONAMY DOBREE, Esq., Governor and Deputy Governor of the Bank of England; further Examined.

The Right Hon. EDWARD CARDWELL in the Chair.

16th March 1858.

(Parliamentary Papers, 1857–8, vol. v.)

396. (*Chairman*) (*To Mr. Neave*) Since we had the pleasure of seeing you last, we understand that you have adopted a change in regard to the practice of the Bank of England as respects the accommodation given to bill brokers?—Yes, we have.

397. Will you have the kindness to state what has been your practice hitherto, and what is the change which you have now made?—Hitherto the discount brokers have had access to the Bank at all times for discounts; the change made now is to decline giving them discounts any longer, but to make the transactions with the Bank confined entirely to advances. Those advances will be the usual quarterly advances, and if they apply for advances at any other times, they will be considered special and dealt with accordingly.

398. (*Mr. G. C. Glyn*) Those are advances on bills?—Yes, to discount brokers.

399. (*Chairman*) What is the object of that rule?—The object of

that rule is to keep the resources of the Bank more within her own compass, and not to give the opportunity to the discount brokers, who accumulate such very large sums in their hands, to rely entirely and totally for cashing their bills upon the Bank of England. When those who have deposited money with them want it, the discount brokers have been in the habit of considering that they could repay their loans at an hour's notice by merely coming over to the Bank, and asking for the cash to do it with. The immense drain upon the Bank in the last panic has shown that that power is an inconvenient one. As I mentioned before, I was applied to to know whether the Bank would give an unlimited discount if it should be wanted, and on the last day, the 12th of November, to one broker alone we gave to the extent of £700,000.

400. The large deposits which are accumulated in London are employed through the agency of a small number of houses in the discount of bills of exchange, and as you told us, on the last day of your examination, those discount houses conduct their business without any cash reserve; if, therefore, the state of commerce be such that the depositors suddenly require the immediate repayment of their deposits, those houses hold themselves liable to that immediate repayment, and having no cash reserve wherewith to make it, fall back upon the Bank of England to furnish them with the means upon the securities which they have to offer?—Quite so.

401. And it is your object, by this rule, to prevent a recurrence of that state of things?—To keep it more within our own control.

402. Can you state to the Committee, in general terms, what is the amount of such deposits in the hands of individual houses?—I have no means of speaking decidedly; but we know that one broker had £4,000,000; another £3,500,000; and a third we supposed to have above £8,000,000. I speak of deposits with the brokers.

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627. (*Mr. Wilson*) Is it not the case that the bill brokers in London are the mere medium through which the spare capital of one class of the community is employed usefully by another

class of the community where it is required?—No doubt; they are very useful in utilising the spare capital of the country.

628. The capital which is not required in particular districts of the country is sent up to London to the bill brokers, and money which is to spare in the hands of the bankers in London is also placed in their hands for use?—Yes.

629. Through those bill brokers the commercial trade of London is supplied with money to which it otherwise would not have direct access?—Partly so.

630. And the manufacturing districts and mining districts draw large sums of money from the bill brokers, which have been sent up to them from the rural districts when it has not been required? —I suppose that it so operates; what is not wanted in one place reaches another.

631. Is it not the practice of business that bankers in the country in rural districts, where capital is not much in demand, send their money up to Gurney's and other large bill brokers for use in London?—Yes.

632. Is it not also the practice of business that the bankers in the manufacturing and mining districts send their bills up to Gurney's to be discounted for the use of their customers?—Yes; London supplies a great deal of that money.

633. Therefore these bill brokers are merely the channel through which the spare capital of one part of the country finds its way to and is utilised in another part of the country where it is required?—Yes; that is the nature of the operation.

634. A great deal has been said about re-discounting bills; can you suggest to the Committee any mode, except by the re-discount of bills, by which that distribution of capital can take place?—I do not see that the re-discount of bills is absolutely necessary; the spare capital placed in the hands of the brokers may discount those bills direct.

635. The reason why the country bankers in the rural districts send their money to the broker is, because they have confidence in the broker, is it not?—Yes.

636. The bill broker in Lombard-street has no direct correspon-

dence with the great mass of traders in the manufacturing and mining districts, has he?—I should think he had; a good many send up bills to him.

637. He has correspondence with the large ones?—Yes; and we perceive that by the bill broker going about in the different towns and seeking bills; he has his agents in different towns now since money is plentiful, seeking to collect bills of exchange.

638. He has agents living in towns where there is a demand for capital?—Yes.

639. And those agents procure bills from the traders of those districts and send them up to him for discount?—Yes, in a measure.

640. Is it not likely that a resident banker in Manchester or Leeds would have a better knowledge of the character of bills in that locality than any agent who was sent down by a bill broker in London?—Certainly.

641. Do you see any objection to a banker in Leeds or in Manchester acting as the agent through whom those bills are collected in those districts, for the purpose of being discounted with the spare capital which is accumulated in London?—Certainly not, if confined to that; but the effect has been most imprudent advances on their part, re-discounting very largely on account of their keeping money at call, and being obliged to make a gain out of the difference of the rate of interest.

642. That is to say, that it has given rise to a great number of bad bills?—Yes.

643. But the fault is the quality of the bill more than the system?—Certainly.

644. Then it is only an abuse of the system of re-discounting and not the act of re-discounting itself to which you object?—Yes.

645. You have stated that bill brokers hold large sums belonging to the London and other bankers at all times. During a period of panic those sums are suddenly called for, are they not?—Yes.

646. Is it consistent with your knowledge how the bill broker usually returns the money. If a banker sends to a bill broker for

£500,000 he returns, I suppose, the bills that he has received from the bill broker?—Yes.

647. Is it customary for the bill broker in that case to give him his cheque upon his banker in ordinary times of good credit in repayment of the advance?—Yes, I should think so.

648. No notes would pass in that case?—No.

649. And that cheque would be cleared at the clearing house in the afternoon?—He would probably have done this; he would probably have discounted other bills with us, and have taken a cheque upon us for the cash for those bills, and that would repay the banker recalling his advance.

650. But in that case would he not pay your cheque into his own banker's and give his own cheque?—Yes; in neither case would notes pass.

651. But he would give his own cheque upon his banker, which would be cleared at the clearing time in the afternoon?—I should think so.

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688. You have told us to-day that you have made a new regulation at the Bank, by which you have determined not to discount bills any more for bill brokers; is that new regulation made altogether irrespective of the quality of the bills, or simply in consequence of the channel through which they are presented?—The discount to the bill broker is closed altogether.

689. That regulation will necessarily very much discourage the business of bill brokers?—No, it need not do so; but it will require them to make their own reserve, and not to be dependent upon the Bank of England.

690. I think you stated to-day that one bill broking house held, you believed, about £8,000,000 of deposits at call, upon bills which they had received from persons to whom they had made advances?—Yes, upon various securities.

691. What would you consider to be a reserve adequate for a bill broker to hold, who had that liability?—That I am unable to say; it depends entirely upon what the length and nature of his engagements are.

692. Is there not this very great distinction between a banker and a bill broker, that a banker receives his deposits, exchanging for them no security, and that a bill broker receives his deposits, exchanging for them bills which the depositor is willing to accept as a temporary security?—That is merely a question of security.

693. But the banker cannot, of course, demand his money without returning his bills?—No.

694. Is it not, after all, a question of the discount of so many bills in the market whether that discount is performed by bill brokers or by bankers?—Yes, it may be so; but the object as regards the Bank is, that the Bank should not have the whole on its shoulders; the discount would be in the market; but at present they rely wholly and solely on the Bank of England.

695. In the case of a panic, such as that in November, when you have stated that you did not refuse accommodation to any person who brought good securities, do you think that you would be able to refuse to discount good bills brought by a house in Lombard-street because they were bill brokers?—If you speak of moments of extreme difficulty when we have to step in to be useful, I do not know but what we should, under that circumstance, assist them; but it is manifestly improper that they should rely entirely for the cashing of the whole of their bills upon the Bank of England.

696. It is chiefly at such moments that bill brokers require to have re-discounts, is it not?—It is; but the system also has this effect, that it concentrates in their hands so many millions, which are claimable all at one moment.

697. Take the 11th and 12th of November; suppose that your rule had then been in existence, and that you had refused to give those large discounts which you did give to the bill brokers on those two days, and that the brokers who demanded the money from the bill brokers had not been able to get it, would they not, if they required the money, have drawn the money from your deposits?—No, they would have left all they had still; I believe the bankers withdrew their money from the brokers, not to use it, but to put it in our hands; therefore if they could not have

got it from the bill brokers, it would have been so much not placed in our hands.

698. Therefore the money which they got from the brokers having been placed in your hands, if the brokers had not been able to pay it, your deposits would have been so much less?—Yes.

699. But if a banker required money to send to the country to aid his country correspondents, and he called on the bill broker for it, and the bill broker was unable to give it him, he must have drawn it from his deposits at the Bank?—Certainly; he must have had recourse to other sources, no doubt.

700. Do you apprehend that the restriction which you have made, will render it impossible for a considerable amount of bills to be discounted in London that have hitherto been discounted?—I do not see that it will; I think that it may require increased caution, and require longer time. I think it will do away a good deal with the deposits with the brokers at call. I think that they will require to have time to realise their securities before they repay.

701. You think that one of the effects will be that brokers will only take money upon a certain notice?—I think so myself.

702. In that case, the bill broker would not be so safe a medium for private bankers to use for deposits, as he is now, if the bankers were only able to obtain them back upon a considerable notice?—Possibly it may have that effect also as regards bankers' deposits; perhaps it may be equally safe, but the mode of doing the business may be a little altered.

703. The Bank of England pay no interest upon their deposits?—No.

704. I understand you to have stated that the new regulation would probably induce other bankers to require a notice also with regard to their deposits, but surely no notice could be required where no interest is paid?—I misunderstood you; I thought that the question was as regarded notice to brokers. I meant that it would probably lead to the brokers requiring of the bankers longer notice for deposits with the brokers; they would cease to take money from the bankers at call so readily.

705. Then if the brokers were to cease to take money at call from the bankers, the brokers would no longer be an eligible

investment for those reserves of the bankers which they chose to have at call?—They might not actually require the money at call; they might be content to have it at a certain notice.

706. A certain portion of the bankers' reserves which are now employed with brokers, must necessarily be at call or at a moment's notice?—It may make a difference in their keeping so much in that particular position of money at call.

707. You have a practice at the Bank of making advances towards the close of each quarter, when the public revenue accumulates in your hands; I understand you to say that your rule would not apply to advances to bill brokers at that time?—They would be equally open.

708. And I understand you, that at other times you would make advances upon occasional applications?—Yes, upon special applications.

709. You would consider yourselves quite open to refuse to aid a bill broker at any time when he might apply?—Entirely.

710. You have not considered yourselves hitherto at liberty to do so?—We have been quite at liberty to do so, but so strong an impression has grown out of doors on the part of the brokers, that they had only to ask for the money to receive it, that this will be a wholesome mode of counteracting that inconvenient impression.

711. Then it is not so much an alteration in the rule of the Bank as an intimation of an altered practice of the Bank?—It is a decidedly altered practice of the Bank, which leaves the Bank at liberty to do as she likes.

712. You have been at liberty to do what you liked hitherto?—Yes, but the other difficulty of reliance upon the Bank of England having grown up, it was much more inconvenient, and on the part of the Bank more difficult, to deny the accommodation.

713. Then this is considered as an intimation that you are to be more at liberty in future than you have heretofore felt yourselves to be?—Yes.

714. (*Mr. G. C. Glyn*) I believe what you are now doing is only reverting to an old custom?—Yes.

715. (*Mr. Wilson*) Inasmuch as the new rule which you have made will discourage the business of the bill broker, or at all events limit it, it will to that extent throw more business into the hands of the joint-stock banks, and of others who are ready to discount bills, will it not?—It certainly will throw it into the hands of those who have capital to support the transaction. Formerly, I believe, the functions of a bill broker were to go round and find the borrower and the lender, and receive a commission for bringing the two together. I believe that he never placed himself at all in a position of responsibility, but left the borrower and the lender to arrange their own transaction.

716. That was when the business was confined to a mere brokerage business?—Yes.

717. Now it is more money dealing; it is not strictly speaking bill broking, but money dealing?—It is still virtually bill broking, as you term it, because it is receiving the difference between the rates of interest in lieu of commission, and having no reserve whatever, no capital more than they had formerly.

718. Still the broker now borrows from one person and lends to another, and he interposes his own credit between the two?—He interposes his own credit without any reserve.

719. Whereas strictly a bill broker was a mere agent between the lender and the borrower, and not interposing his credit at all?—Quite so.

720. At the close of the quarter, is the period during which you make those advances confined to the time when Consols are shut?—It begins then, and we make advances until the period when the dividends are paid.

721. But the advances which you make are not confined to the security of the Consols which are then closed; they are made upon any securities?—They are made upon any securities.

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(19th March 1858.)

924. (*Mr. Cayley*) Will you be kind enough to explain what you meant on the last occasion with reference to the change in your rule as regarded advances to brokers. As far as I understood you,

you seemed to object to the system of their taking in money at call, in consequence of the pressure which there was upon the sources of circulation under a panic. Have I taken the right view of your evidence?—I made no objection to their taking money on call, but I called the attention of the Committee to the effect of large sums being accumulated in few hands when accumulated there through the means of depositors of money at call. I wished to state that the system of money at call necessarily compels the broker, as well as the banker who takes it, to make immediate use of it, because he could not afford to allow interest if it was not employed at the same instant, at a better rate of interest, for the sake of his profit; it therefore occasions the party who takes the money at call to look out for securities wherever he can find them, and not to be very chary in the selection of them, when there is a difficulty in getting them. It leads therefore to the encouragement of an inferior class of bills, and is in some degree instrumental in giving currency to bills that probably ought not to be discounted.

925. (*Mr. G. C. Glyn*) Did you not also add another objection, which was that the brokers worked without any sufficient reserve? —Just so; I carried it on still further by saying, that having accumulated very large masses of money, to the extent of millions, they made no provision for working their own business, but relied entirely upon the Bank of England.

926. (*Mr. Cayley*) Do you think that the present system of taking money at call by the joint stock banks is a dangerous system?—Decidedly dangerous. It is carried to such an enormous extent that it must create great difficulty to those who receive such sums of money at call. The difference to my mind is this, that money at call required to be used in a class of security which admits of an immediate return, and therefore limits those who take it in a great degree to bills, and bills only.

927. Are not the deposits which you take in at call also?—The deposits of all bankers are at call; the trading balances.

928. The current balances are at call; but I speak of the deposits? —We take no deposits; all ours are merely traders' working balances.

929. Then they are at call?—All deposits are at call in that way, but we allow no interest upon them. I am speaking of the effect of allowing interest upon money at call; it compels the party to use it; a banker may, as the bankers did during the panic, prefer not using it at all, and letting it accumulate with us. But if it was money upon which they were paying interest, it would necessarily occasion a less disposition to leave it idle.

930. Do you not think that if there had not been a high bribe to the possessors of money during the late crisis to bring it to the various banks, there would have been more difficulty to the commercial body?—I do not think that much money came to the commercial banks during the panic; on the contrary.

931. Do you think that they were not tempted to bring it by the high rate of interest offered by the joint stock banks?—I think that a high rate of interest would have been a motive with everybody; but I think, on the other hand, that the countervailing and stronger motive, viz., fear, and a consideration of the risk which they ran, would prevent their doing so.

DEPOSIT RATES AND THE SAFETY OF JOINT-STOCK BANKING

Evidence of DAVID SALOMONS, Esq., Director of the London and Westminster Bank, before the Select Committee of the House of Commons on the Bank Acts, 1858.

The Right Honourable EDWARD CARDWELL in the Chair.

19th March 1858.

(Parliamentary Papers, 1857–8, vol. v.)

1124. (*Chairman*) You are a Director of the London and Westminster Bank?—I am.

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1130. Is there any important difference between the nature of your business and the business of the ordinary private bankers?—None whatever; we profess as to our general business to follow the rules which are supposed to be followed by private bankers, with this exception, that we have introduced the principle of taking money on deposit at interest for fixed periods, payable

according to agreement, either on demand or at some days' notice.

1131. Was that a high rate of interest originally?—We fixed, when we first started, for sums under £1,000, 2 per cent. interest, leaving larger sums to be settled at the time when the parties deposited their capital; but we have been obliged by alterations in the rate of money and other circumstances, competition amongst other things, to raise our rates nearer to the Bank rate.

1132. What is the maximum rate of interest which you have ever allowed?—We make a distinction between two classes of depositors, those who deposit sums under £500, and those who leave sums above £500. As to those above £500, we have regulated ourselves for the last three or four years by the Bank rate, keeping at about 1 per cent. under the Bank rate, and for sums below £500, having it 2 per cent. under the Bank rate.

1133. When the Bank rate rose as high as 10 per cent., what was the rate of interest which you allowed?—Eight per cent. on sums above £500. I must offer some explanation to the Committee with regard to that. Not expecting the rate of interest to be raised so very high, there was a sort of tacit understanding on the part of the London and Westminster Bank (we had nothing in writing which would compel us) to give within 1 per cent. of the Bank rate; but one of the Banks, the Union, and I think another bank, had something more than an implied contract; they had a prospectus which compelled them to give within 1 per cent. of the Bank rate of discount. Without our having any printed engagement, we had fallen very much into that course of business; but when the Bank rates were advancing, we had a meeting with the various joint-stock banks of London; I think it was at the time when the Bank discount was 8 per cent.; and it was proposed that we should not advance beyond 7 per cent., whatever might be the future rise of discount by the Bank of England. We could not agree upon that; consequently, when the Bank rate rose from 8 per cent. to 9, we rose ours to 8, but we never exceeded it; 8 per cent. therefore was the utmost limit that we paid for sums above £500, and 7 per cent. for amounts below £500.

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1135. I suppose a considerable part of your deposits are the deposits of country banks?—No, I should say not a considerable part. Some of the depositors are our customers, having current accounts with us. Others are merely depositors with us; but a very large mass of the deposits which we hold are the deposits of the general public; persons who leave their money for a short time, and take it away again.

1136. Have you any deposits which are of a permanent character? —I should say not.

1137. Have you deposits from small depositors?—A very large amount.

1138. Do you consider that these deposits have been withdrawn by you from other bankers, or that the institution of joint-stock banks has given rise to a new class of deposits?—I should say that almost the whole of our business describes the augmented capital and resources of the country; that, taking the whole of our customers together, there is a very inconsiderable part which represents persons who have left other bankers; that almost the whole of our business describes new business, persons probably who had not bankers before; and new connexions, persons who have gone into business within the last 24 years. A very inconsiderable portion, indeed, is the transfer of accounts from private bankers to the joint-stock banks. I speak as to my knowledge of my own bank; I cannot answer concerning any other with the same certainty.

1139. How long is it since the joint-stock banks were admitted to the clearing-house?—We were admitted to the clearing-house on the 8th of June 1854.

1140. Will you be kind enough to tell us what is the mode in which you employ the deposits entrusted to you?—Taking them altogether, including those on which no interest is allowed (because the current accounts do not receive interest), the first demand upon our deposits is for our customers, in the discount of bills or any other advances that they may require temporarily; all the surplus is employed in the discount of commercial bills, or lent upon Government securities.

1141. Are those loans and those discounts of commercial bills through the medium of bill-brokers?—Yes.

1142. You make loans on Government securities?—We make loans on Government securities to brokers also.

1143. Do you employ any part of your deposits in loans for a longer period, such as in railway debentures, or anything of that sort?—We should not call those loans; we occasionally invest a portion of our deposits in railway debentures, but those we limit to the shortest possible dates; generally to a year or 18 months.

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1164. (*Mr. Cayley*) When you say that you have come to some fresh arrangement with regard to your allowance of interest upon deposits, do you speak of yourselves as the London and Westminster Bank, or of some of the other banks in combination with yourselves?—I think all the banks have come to an understanding that it is not desirable, either for their proprietors or for the public, to follow closely at all times the alterations of the Bank. I believe it is understood amongst them all that they do not intend following that course in future.

1165. Is that from a feeling, that it is rather dangerous under particular circumstances?—I cannot admit as to its being dangerous, but there can be no doubt of this, that there is a notion in the public mind which we ought not to contend against, that when you offer a high rate of interest for money, you rather do it because you want the person's money, than because you are obeying the market rate; and I think it is desirable that we should show that if persons wish to employ their money, and want an excessive rate, they may take it away and employ it themselves.

1166. You think that there is now a general understanding amongst the banks which you have mentioned, to act upon a different principle from that on which they acted during last October and November?—I think I may say that I know that to be the case.

1167. Was not it the fact that this system of giving so high a rate of interest upon money at call, commenced very much with the

establishment of some banks during the last year or two, which, instead of demanding 10 days' or a month's notice, were willing to allow interest upon only three days' notice; did not that system begin about two years ago?—I do not think it began with one of the new banks; I think it began with one of the older banks; I know that, as regards my own bank, we were forced into it; I forgot to say that, with regard to ourselves in taking money on deposit, the parties must leave the money a month, or they lose interest. We do not take money from any depositor at interest unless upon the understanding and condition that it remains a month with us; he may withdraw it within the month, but then he forfeits interest; it will not carry interest unless it is with us a month, and then it is removable on demand without notice.

1168. Is it or is it not a fact that some of the banks pay interest upon their current accounts?—Yes, I think most of the new banks do so; and the Union Bank of London does it.

1169. At a smaller rate than upon their deposits, I presume?—I think at a smaller rate, but I believe it is a fixed rate on the minimum balance for some period, either six months or one month, I do not exactly know the period. I think I ought to add (and I believe it is the case with all the banks) that the London and Westminster Bank, from the day of its first institution until the present day, has never rediscounted a bill. No bill has ever left our Bank unless it has been for payment.

1170. Is not that generally the case with the London joint-stock banks?—I believe it is the case.

1171. (*Mr. Weguelin*) But you sometimes lend money upon bills deposited with you by bill-brokers?—Yes.

1172. And you occasionally call in that money and redeliver those securities?—Yes; but we do that to a very small extent.

1173. Is not that equivalent to a rediscount of bills?—No; the discount of a bill and the lending money on bills are very different things. When we discount a bill, that bill becomes our property; it is in our control, and we keep it and lock it up until it falls due; but when brokers come to us and want to borrow, say, £50,000 on a deposit of bills, and we let them have the money

and afterwards return those bills to them and we get back our money, surely that is not a re-discount.

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1186. (*Mr. Hankey*) Can you give the Committee any idea as to what proportion of deposits you consider generally desirable to keep in reserve?—You must be very much guided by circumstances. In times of alarm, when there are failures, of course all bankers strengthen their reserves; our reserve then is larger. In times of ordinary business we find, both as regards our deposits at interest as well as those which are not at interest, that there is a constant circulation; that the receipts of money very nearly meet the payments.

1187. You probably keep at all times a certain amount of your deposits totally unemployed; in reserve?—Yes.

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1190. Do you consider that when your deposits are materially on the increase it is necessary to keep a larger amount of money in reserve than you would keep at other times?—I may say that, as a general rule, our reserve would always bear some proportion to our deposits.

1191. Do you employ your money in the discounting of bills for other persons than your own customers?—Discount brokers.

1192. Only to discount brokers?—Yes.

1193. Not to strangers who are in the habit of bringing you in bills; commercial houses?—I should say generally not. We have one or two houses for whom we discount who have not accounts with us as bankers, but generally we do not discount except for our customers or for bill brokers.

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1196. Do you consider that the Bank Act of 1844 has been of advantage or disadvantage to the commercial world?—I think it has been of great advantage, because it has insured the payment of the note; it has removed all risk of the convertibility of the Bank note.

1197. Do you think that it has tended at all to make the commercial world more prudent?—No, I do not; and I think that

the commercial world cannot be guarded against the effects of a long period of prosperity and success. I think that people making a great deal of money for a number of years, and carrying on extensive business without serious loss, become so sanguine and over confident, that they believe no loss can possibly happen; therefore, I do not consider that any human institution will make people prudent.

1198. Do you consider that a frequent variation in the rate of interest is of any injury to the commercial world?—No, I do not think it is; I think that men will understand (and it begins now to be understood) that when the money in circulation increases or diminishes, the rate of interest must rise and fall.

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1206. (*Mr. Tite*) It has been stated, that some of the investments of the London and Westminster Bank were railway debentures; is it their rule to take debentures of long dates, or of short dates; and if of short dates, what is about the limit?—We never take them so long as three years. We endeavour to arrange with the companies for short dates only, and that is limited to first-class railways.

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1209. Up to December the rate of interest of all the joint-stock banks generally followed the rate of interest of the Bank of England?—Just so.

1210. They are now independent. Is there any common understanding between the joint-stock banks as to what the rate of interest should be?—I believe there is as near an understanding as this, that whenever they make important changes they shall communicate with each other; I believe that is the nearest approximation which can be made, because we are to all intents and purposes, I will not say rivals, but fair competitors, and we thought it would not look well as regards the public if we were to combine as to any rate of interest offered to depositors, and I believe that at present there is no uniform rate to guide collectively the joint-stock banks; each bank decides for itself as to the price as well as the mode in which it takes deposits.

1211. As to the principles which guide the joint-stock banks, are

they the general principles of commerce, as to an abundance and a want of money, and the general character of commerce, taking into account also the state of the foreign exchanges?—I should say with ourselves strictly so.

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1219. Is it the practice of your bank to make advances on warrants of goods?—I cannot say that we never do it, because occasionally a customer may require a trifling advance; but as a rule we do not do it.

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1221. Do you think that the system of paying interest on deposits reasonably, is a security to a banker by making men provident, and inducing them not to withdraw their money hastily; do you think that that opinion is well founded or otherwise?—I believe it to be a great public advantage, and without offering any danger whatever to the banks. I wish to state this deliberately and boldly, as a well-considered answer upon which I have reflected, and after a great deal of examination of the accounts of the establishment with which I am connected. I believe that there is no danger in it, and that it is of very great public advantage.

1222. (*Chairman*) Depending of course upon the rate of interest?—That is quite independent of the rate; I am alluding merely to those banks which take money following the value of money in the market. I do not allude to such banks as I see advertised, which really are no banks at all, which give 5 and 6 per cent. now that the price of money is 2 per cent. I do not call those banks.

1223. You are applying yourself to what you told us was the practice of your own bank, following the bank rate to within 1 per cent.?—Yes; perhaps I had better modify that by introducing the exception of money being at a very high rate.

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1225. (*Mr. Tite*) With respect to re-discount, in point of fact, if I understand you, advances are made to brokers, secured by bills deposited?—Yes.

1226. It is a collateral security, and not a primary security?—Yes.

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1231. (*Mr. Puller*) You spoke of your own business, and said that the business of the joint-stock banks had been mainly produced, not by taking from other banks, but by a new class of business?—Just so.

1232. By tradesmen depositing with them, and making their payments by cheques, who would formerly have made their payments in cash?—Yes; I meant to say that persons who kept their money at home, and did not keep a banker, keep a banker now; and that our business has increased probably by that class of accounts, and also by the great increase and accumulation of the capital of the country.

1233. To that extent is not the use of money to a great degree superseded and rendered unnecessary?—It is so in that sense.

1234. In times of discredit, does not the danger become all the more aggravated in consequence of that limited amount of money which is in use?—No, I do not think that follows, unless, by the misconduct of the banks themselves, they give cause of discredit. I believe that there would have been no difficulty in London at all in the month of November, if the Borough Bank of Liverpool and the Western Bank of Scotland had not failed; that produced an alarm which probably affected all banks. If the banks themselves were properly constituted, and if they conducted their business properly, there would be no discredit.

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1246. (*Mr. Wilson*) Is it not the case that bankers generally regard money at call as one of the most immediately available assets with which they have to meet their liabilities?—Yes, it is; but that, I am afraid, is only readily available when times are smooth; we have had two panics, in which money at call with some brokers did not come when it was asked for, in consequence of the brokers themselves being in difficulties.

1247. Do you consider Government securities a good asset in the event of pressure?—Undoubtedly; if that is not good, I do not know what is.

1248. It is, of course, good, subject only to any loss which may arise from a forced sale?—Just so; and in 1847 we made a forced sale; we sold £300,000 consols at that time and repurchased them at a loss of £20,000; but, no doubt, consols are one of the most

ready securities which a bank can hold, subject, of course, to the fluctuations in price.

1249. As a banking security they are subject, of course, to all the fluctuations of the market between the time at which you have to buy, when they are generally rather high, and the time at which you have to sell, when they are rather low?—Just so; as regards ourselves, properly speaking, we hold consols with our own capital; they represent our own capital.

1250. Do you consider that first-class commercial bills, which are falling due in fair proportions according to your general liabilities from day to day, are the best securities which you can hold for banking purposes?—No doubt they are the best, because they put you under no obligation; they come due on a certain day, and then you are at liberty either to renew the loan or not.

1251. And money at call if placed in such a position as to be perfectly satisfactory to you, would also be of that character, would it not?—Yes, it would, provided you put it in a safe place, so that it would surely come back in time of panic.

1252. It is a very tempting investment, inasmuch as it gives you a double advantage; you have the certainty of obtaining your money at the full rate when you want it, supposing it is placed to your satisfaction?—Yes, but we have only placed a very small amount upon call as a part of the reserve of our business, compared with our deposits.

1253. You hold money yourselves at call, do you not?—All our deposits are at call.

1254. Do you pay interest on money actually at call?—We hold all our deposits at call, and we differ in that respect from all the other joint-stock banks. We assume that persons would not have come to us unless they thought us safe; and that they would leave their money with us at all times as long as we were considered safe, and so long as they did not want their money. And we find from experience, that there is a constant circulation of persons every day, some bringing money in, and others taking it away; therefore it is unnecessary to require any notice whatever. Practically we should only desire notice in difficult times, and that would be just the period when probably people would be

disinclined to giving us the benefit of it; therefore, we profess to hold our deposits at call.

1255. As a matter of fact, is it not your rule to give no interest upon current accounts, or upon money literally left with you at call, but to give interest upon money which is left with you, subject to a given notice?—Yes; all deposit money after a month is at call; we do not bind ourselves to pay interest for any money that is not left a month on deposit.

1256. If money is placed with you, do you require your customers to give notice when they place it, whether it is intended to be a deposit account bearing interest, and to remain with you for a month, or do you receive it without any notice of the kind?—When a man brings us money on deposit, of course he says that he pays it in on deposit, and if it was a large sum we should suggest to him the propriety of giving a notice.

1257. Do you give him the chance afterwards without notice to you of converting it into money at call, with you, if he likes to do so?—Yes; but then we do not pay him interest, unless it remains a month with us.

1258. (*Chairman*) With respect to the questions which you have been asked regarding money at call, if you knew that the house with which you left your money at call, had £11,000,000 also at call, had made advances upon bills of exchange, and were carrying on their business without any cash reserve, you would consider it not quite certain that your money would be forthcoming at the moment when you wanted it?—We should consider such a class of business hazardous, and of course we could not rely upon it ourselves.

1259. (*Mr. Tite*) If a man places money in the London and Westminster Bank, and says nothing about it, it is in a current account as a matter of course?—Yes.

1260. Is the transaction for obtaining interest upon it as a deposit, a matter of arrangement?—We would not take money from a stranger without inquiry; he would have to open either a current account, or a deposit account; he must declare one or the other, and of course a current account would be one thing, and with a deposit account he would be subject to the rules for depositors.

1261. I refer to an ordinary customer?—If an ordinary customer paid in money, it would go to his current account, of course.

1262. (*Mr. Cayley*) After it has been a month at his current account, does it then receive interest as a deposit?—No.

1263. Then you have the same distinction as other banks between deposit and current accounts?—Certainly.

1264. (*Mr. Wilson*) After the deposits have been in your hands a month, they are all subject to call?—Yes; in fact we are subject to pay all our depositors on demand under the conditions already stated.

1265. (*Mr. Vance*) Do you ever make cash advances to any of your customers, without the lodgment of some security?—To say that we never do such a thing, perhaps, would not be the truth, but it would not be strictly true if I said that we did. If a customer who is known to have available property, wanted a couple of thousand pounds, we should put it to his account without the least hesitation.

1266. In a discount account, when you have bills running, in the event of any of the parties to those bills failing, is it your custom to return them to the party from whom you have had them, without waiting until their maturity?—No; we must wait till the bills mature; that is the practice.

1267. You differ in that respect from the habit of the Bank of England?—I believe that is the habit with all bankers except the Bank of England.

DEPOSIT RATES OF THE LONDON JOINT-STOCK BANKS

Evidence of GEORGE HOLGATE FOSTER, Esq., Director of the London Joint-Stock Bank, before the Select Committee on the Bank Acts, 1858.

The Right Hon. EDWARD CARDWELL in the Chair.

13th April 1858.

(Parliamentary Papers, 1857–8, vol. v.)

2293. (*Mr. Wilson*) You are a director of the London Joint-Stock Bank?—Yes.

2294. What is the rule of your bank with regard to interest upon deposits?—Upon deposits independently of current accounts we give interest.

2295. You have two classes of accounts, current accounts and deposit accounts?—Yes.

2296. Upon the ordinary current accounts you give no interest?—No.

2297. What rule do you have which distinguishes a deposit account from a current account?—If a person keeps two accounts, he must direct a certain amount to be carried to the deposit account specially, if he wants to obtain interest.

2298. What rule distinguishes the two in your practice?—Suppose you keep a current account with the London Joint-Stock Bank, and you consider that you ought to keep £2,000 as the balance of that account, for the purpose of paying them for the trouble which they have in keeping the current account, 'and you have' to-day £10,000 upon your account; you may desire them to transfer £8,000 to your deposit account; that would be the mode of action.

2299. With regard to your deposit account, do you allow interest from the day when the deposit is made?—Yes.

2300. Do you require a notice as to its being withdrawn?—Most of our deposits require either seven or ten days' notice; there are some which do not, but the greater proportion are at seven or ten days' notice.

2301. Is there any rule by which you distinguish the two requiring notice and not requiring notice?—The discussion is as to the extent to which we should go without notice.

2302. You have no distinct rule?—The distinct rule is this, that there would be discretion used as to the extent to which we would take moneys without notice.

2303. When you speak of discretion, is that a discretion which you lodge in the manager of the bank, at the counter, from day to day?—The manager and the executive; there are always two directors there each day; one director is there the whole of the day.

2304. Then they accept money on deposit accounts upon which

interest is paid without requiring notice, up to what they consider a safe amount?—Yes.

2305. Do you determine that amount in each individual case, or do you determine it according to the aggregate of the deposits upon which no notice is required?—It would be more in this way; there are a great variety of accounts probably for small sums, a few hundred pounds each; of course those are not so likely to be called upon altogether as larger sums; larger sums we should decidedly have a great objection to pay without notice.

2306. But you have no inflexible rule requiring notice for repayment of deposits upon which interest is paid?—Except that which is regulated at the time.

2307. You have no inflexible and invariable rule?—No. I do not know whether I quite understand what you mean by an inflexible rule; the rules are those which are adopted at the time when the depositor brings his money to place it either at seven days' notice or at ten days' notice, or subject to three days' call.

2308. Then in point of fact, each transaction is a separate transaction by itself?—Quite so.

2309. Therefore you have no general rule, but you have special rules for each case?—There is a general rule with reference to the principle, which is seven or ten days' notice; the exceptional rule is when it is shorter.

2310. But you say that in some cases you require no notice?—I think I am wrong there, three days' notice is the shortest.

2311. Then you require notice in every case; but that notice varies from three to ten days?—Yes. When I say that no notice is required, we constantly repay money without notice, though in reality the term of the contract is three days' notice.

2312. (*Mr. G. C. Glyn*) Does the same rate of interest prevail in all those cases, whether there is seven days' notice or ten?—Yes.

2313. (*Mr. Wilson*) Do you give interest upon all those deposits, however short the time may be for which the money is left in your hands?—Yes.

2314. You have no rule to the effect that upon money left for

a shorter period than a month and withdrawn, the interest is forfeited?—We have none.

2315. Have you any limit of the time after which no notice at all is required, or does the notice attach to the deposit whatever time it remains in your hands?—It attaches to the deposit whatever time it remains in our hands.

2316. Have you any rule by which you determine the rate of interest which you give upon these deposits?—The state of the money market is the chief guide.

2317. Have you any rule bearing any fixed relation to the rate which the Bank of England charges?—Not always; it has been so very frequently; until the late crisis the general principle adopted was 1 per cent. under the Bank minimum rate of discount.

2318. Some joint-stock banks, I think, have made it distinctly a rule that the rate of interest paid should be at all times within 1 per cent. of the Bank rate?—It was so, but I doubt whether it is so now. During the crises the rate of interest was not allowed to the same extent; when the Bank of England went up to 10 per cent., the highest rate which was allowed by the joint-stock banks was 8 per cent.

2319. Then you followed the Bank of England up as high as 9 per cent.; when the Bank raised the rate to 9 per cent. you raised it to 8?—Yes.

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2329. (*Mr. G. C. Glyn*) Do you allow the money of small depositors to remain at call chiefly without notice?—No; I think we have none under three days.

2330. Then we may take it as the principle of the London Joint-Stock Bank, that you do not allow interest upon money at call, but only upon money lodged for a fixed period?—Yes; at the same time, as I have said before, we are constantly in the habit of paying money without call, if the parties wish it.

THE BANK OF ENGLAND AND THE PROVINCIAL BANKS OF ISSUE

Evidence of SAMPSON SAMUEL LLOYD, Esq., before the Select Committee on the Bank Acts, 1858.

The Right Hon. EDWARD CARDWELL in the Chair.

16th April 1858.

(Parliamentary Papers, 1857–8, vol. v.)

2551. (*Mr. Spooner*) You are a Banker at Birmingham?—I am.

2552. Of the firm of Lloyds and Company?—Yes.

2553. How long have you been a banker in Birmingham?—Nearly 20 years.

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2781. (*Mr. Cayley*) And it is from the anxiety of the Bank, and their feeling of the necessity to protect themselves, that the anxiety, and ultimately the panic of the public arises?—Yes; very great hoarding, as the Committee are aware, always takes place in a time of panic; all those bankers who are prudent and who take care of themselves always hoard considerably. In our own case we hoarded treble our usual reserve in 1847, and more than double in 1857, and we should feel compelled to do it again. The Committee will remember the evidence of Mr. William Brown, the Member for South Lancashire, in which he states that the Bank of Liverpool locked up £235,000 in the panic, I think, of 1847, whereas they usually locked up £30,000 or £40,000. All bankers know that their engagements are so numerous that, if put to the pinch, they cannot possibly be converted at once into the legal tender; there is not legal tender enough in the country to pay them; when there are very large demands for the legal tender everything is liable to be brought to a deadlock.

2782. The system depends upon confidence?—Yes.

2783. When confidence exists, payments are made by bills and cheques for the most part?—I should say that the vast majority of the payments of the country are made by bills and cheques.

2784. But when the Bank begins to resort to its restrictive measures, then the most powerful houses will begin to hoard bank notes?—Bankers are compelled to do so, particularly in the great centres of industry.

2785. Then, although there apparently is the same amount of notes with the public, under those circumstances those notes are really not obtainable by the general public?—Certainly not. May I mention a circumstance which I think tends to a certain extent to make note-issuing bankers hold more than they otherwise would do; I allude to the restrictions, and I say it without disrespect, the invidious restrictions of the Bank of England as against note-issuing bankers. It is very well known that the Bank of England will never discount a bill of any quality whatever for a note-issuing banker. If I have a parcel of £100,000 or £200,000 of Glyn's, or Jones Lloyd's, or Rothschild's acceptances, the Bank of England is precluded by its rules from discounting them for a note-issuing banker upon any terms whatever. Some time ago, we ourselves kept in the Branch Bank of England at Birmingham from £15,000 to £20,000 of Exchequer bills, wishing to be secured from the necessity of holding a large mass of Bank notes for some possibly contingent demand, and there was an agreement with one of the former managers of the Branch Bank that we might, in case of any sudden demand for £10,000 or £20,000, which we did not expect, have an advance on these Exchequer bills, paying the Bank of England a commission of $\frac{1}{4}$ per cent. for the advance, and if the money was not repaid to the head office in London by 10 o'clock the next morning, the Bank were to be at liberty to resell the Exchequer bills and pay themselves. That privilege was a few years ago entirely taken away from us, and we were told that the rule of the Bank of England would prevent their giving, as they called it, any assistance to a note-issuing banker. I have no wish to question the wisdom of the decisions of the Bank of England, but the practical effect is this: we know that we have no one to look to but ourselves in times of pressure, and of course we hoard a correspondingly increased amount of Bank notes upon the slightest symptom of alarm, which tends *pro tanto* to diminish the amount of notes in the hands of the public.

Our firm are not in the habit of re-discounting bills, but any firm, however prudently conducted, might under extraordinary circumstances of pressure find it convenient to change some first class bills. The joint-stock banks, so far as I am informed, are in the pretty regular habit of keeping a parcel of picked short first class bills instead of keeping a large hoard of Bank notes; say bills having 7, 14, or 21 days to run, which, whenever they have any demand upon them, they send in to the Bank of England, and have discounted at the Bank rate; whereas we are entirely shut out from any such privilege. The consequence is, that we are obliged to hoard more notes than we otherwise should do.

2786. Is that practice confined to joint-stock banks not issuing notes?—I think that the rule is against all note-issuing banks, whether joint-stock or private.

2787. (*Sir Charles Wood*) Do I rightly understand you that the Bank of England refuses to discount first class bills, as you term them, for any bank which issues notes?—I understand that to be their rule even as respects a bill of seven days. To put a case in point, we were refused to have an advance upon Exchequer bills to three-fourths of the amount, to be repaid at 10 o'clock next morning, and at $\frac{1}{4}$ per cent. commission, which I should have thought would have answered the Bank's purpose very well.

2788. (*Mr. Cayley*) That practice of keeping short-dated first class bills has been coming into operation for some time, has it not, on the part even of issuing joint-stock banks?—I presume that the issuing joint-stock banks would not have the facility of sending them into the Branch Bank of England, but in Birmingham we have only one issuing joint-stock bank, namely, the National Provincial.

2789. Is it not the practice that some joint-stock issuing banks do, instead of keeping a large reserve of notes, have a reserve of short-dated bills?—They would be obliged in that case to keep notes, because notes are the only legal tender.

2790. (*Mr. Spooner*) You are alluding to a sudden demand?—Yes, which may and does occur without the slightest notice.

2791. (*Mr. Cayley*) That practice which you have described could not so well be followed under such a state of things as happened in November 1857; they would then be obliged to resort to notes instead of these short bills?—The Governor of the Bank can best tell what they would have done in 1857; I cannot tell what they would have done; I know that those bills were refused in the country; we refused a good many ourselves as a matter of precaution, but what was done in London I cannot say.

2792. Were bills generally discounted by the banks in your neighbourhood?—I think all the banks discounted bills for their own regular customers, and assisted them as well as they could to prevent panic, but it is matter of policy in all these panics to discount as much only as we cannot well avoid.

2793. And to ask your customers to discount as little as possible?—That, perhaps, would be discreditable, but we do refuse discounting when we can.

2794. From your experience is Birmingham a speculative town?—I think it is one of the most unspeculative towns in the kingdom. During the whole of the last panic I am not aware of a single failure, except, perhaps, a couple of small tradesmen. There has been no failure during the last three months of the year where the assets amounted to £10,000. I am not aware of one of £5,000.

2795. Are the banks, private and joint-stock, in the habit of giving undue or lengthened credits there?—I think not in the town of Birmingham, otherwise we should have had failures if there had been any undue speculation fostered by the banks.

2796. Do they encourage accommodation bills there very much?—I can only speak for ourselves. If the best customer that we have on our books were really convicted of drawing an accommodation bill, we should wish him to close his account.

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2802. You have objected to giving security for notes, for the reasons which you have stated; do you think that you would be

acting fairly to your depositing customers if you gave security for your notes and left them unsecured?—A question might arise as to what the moral effect would be of a public notice being given that a bank was giving, say, £20,000, £50,000, or £100,000 of its capital as security for its notes, then the depositors of course would judge for themselves. It does not appear to me to be a sound principle to prefer one creditor above another.

2803. In point of fact, do you think that the noteholder has any more claim to security, upon the ground of his not being a willing noteholder, and that he is obliged in the course of his trade to take those notes, than a depositor who deposits his money has to security for his deposits?—I think not, because the depositors are many of them a poorer class than the holders of notes. Very few labouring men get hold of a sum of money equal to £5. When £1 notes were permitted, bank notes were frequently taken by labouring men; but at present the depositors, many of them, are of a much poorer class than the noteholders. And, further than that, any man can refuse to take a country banker's note, if he pleases; he is just in the same position as if the payer offered him a cheque; it is in his option to refuse it; but, practically, a man would be rather foolish generally to do so; in fact, in times of pressure, people are generally glad to get hold of any representative of value they can; a bill rather than nothing.

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2813. (*Mr. G. C. Glyn*) Do you charge a commission?—We charge a commission when we are not paid by time; our principle is not to do what the London bankers I believe do, namely, to stipulate for a fixed balance; but we stipulate for an average balance equal to so many days' use of our customers' money.

2814. If you issue Bank of England notes alone, do you make any difference?—No; there may be an exception; we may sometimes in changing a cheque as a matter of courtesy in some trifling transaction say, 'We will give our notes for it'; but we do not act in that manner in any important transaction.

2815. You would not charge a commission to your regular customers if you did not issue your own notes?—We charge just

the same, whether we issue our own notes or Bank of England notes.

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2840. (*Mr. Puller*) In speaking of the relative cases of the noteholders and the depositors, you said that the depositors were a poorer class of people than the noteholders?—I meant to say that some among the depositors are a poorer class.

2841. Have you many labouring men among your depositors?—Yes, and maid-servants. I think I may say that labouring men, the very smallest description of farmers, and maid-servants are amongst our depositors.

2842. Would not they be holders of notes?—They may not always command a £5 note; and I think that persons of that class, even if they had it, would take it to some place of safety. I think it is, generally speaking, rather commercial travellers and persons engaged in business who hold the notes; farmers particularly.

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2868. (*Mr. G. C. Glyn*) Have you found the amount of cheques used by your depositors increase much of late years?—I think they have increased very much.

2869. The number of your depositors in small sums probably has increased also?—I think so.

2870. If there was a penny stamp affixed to all those cheques which are used by depositors for small amounts, would it not very much check the banking facility which has been established of late years?—I think it would, and also the economy of the circulating medium.

2871. It would interfere with the additional form of circulating medium, which has been created by the wants of the community of late years in the use of cheques?—I think it would tend to disturb that economy in the circulating medium.

REPORT FROM THE SELECT COMMITTEE ON THE BANK ACTS, 1st JULY 1858

(See Parliamentary Papers, 1857–8, vol. v.)

29. Your Committee will now state to the House the general outline of commercial disaster, as it occurred in the United Kingdom.

30. The first occurrence in this country which caused alarm was the failure of the house of Macdonald & Co. of Glasgow and London, which took place in October, and was accompanied by the failures of Monteith & Co., and Wallace & Co., of Glasgow. The house of Macdonald employed a great many workpeople in sewing muslin goods for the home trade and for the American market, and this they carried on to a very large extent. They had been in fair credit till very nearly the time of their failure, but shortly before that period they are described as having given out that they had changed their mode of doing business for the purpose of embracing a wider field. This, however, is represented as having been a deception, intended to cover a system to which they had recourse of drawing fictitious bills, and to give to these bills the appearance of genuine business transactions. From the records of the public tribunals, it appears that a very considerable number of persons (one of the partners is said to have admitted as many as 75) in London and other places were employed by this firm, for a small commission, to put their names to fictitious bills, which were then discounted, a large proportion of them in Glasgow; and when the house of Macdonald failed it was found to be indebted to the Western Bank £422,000.

31. The house of Monteith & Co. was indebted to the same bank £537,000; and that of Wallace & Co. £227,000.

32. The house of Messrs. Dennistoun & Co. stopped payment on November 7; it is expected to pay its liabilities in full, and its members bear the highest character. But it can occasion no surprise that, on the occurrence of such a crisis as that which took place in America last year, a house, with debts owing to it from that country of nearly two millions, losing at the same time

£300,000 by the failure of the Borough Bank of Liverpool of which the partners were shareholders, should, at a juncture when general alarm prevailed, have been obliged to suspend its payments.

33. During the month of October there was a very great gloom in Glasgow, occasioned by the commercial panic in America, Glasgow being very intimately connected in trade with America, with New York particularly. Towards the end of October that feeling was much increased, from its being well known that the Western Bank were in difficulties from their connexion with the three houses which have been above referred to. The Bank closed on the 9th November, at two o'clock. The Western Bank and the City of Glasgow Bank had establishments open at night for the purpose of receiving the savings of small depositors. During the evening of the 9th, the Monday, there was a demand for gold by the savings bank depositors at the branches of the City Bank. On the Tuesday morning, when the doors of the banks were opened, a great number of parties appeared with deposit receipts, demanding gold; one witness, speaking of his own bank, says, ' The office of our own establishment was quite filled with parties within a quarter of an hour of the opening of the doors; I think at half-past nine'. This run or panic increased, and the continued refusal of the notes of the Western Bank added very much to the excitement. These people who came for money would not take the notes of any bank; it did not matter what bank it was; they refused everything but gold. Two of the banks sent a deputation of the directors to Edinburgh to confer with the managers of the Edinburgh banks on the subject, and to induce them to rescind a decision at which they had arrived, not to take the notes of the Western Bank. They failed in that; the notes of the Western Bank were refused the whole day on the Tuesday. The streets of Glasgow were in a very excited state; crowds were walking about going from one bank to another to see what was going on; there was an immense crowd of people. At the National Securities Savings Bank the run was very great indeed. The National Savings Bank paid in notes, and then the depositors, having received their deposits in notes, went with those notes to the banks that had issued them to demand gold. The City of Glasgow Bank did not open on Wednesday the 11th.

Troops were sent for by the authorities, who were afraid of some disturbance. The magistrates issued a proclamation either on the Tuesday night or on the Wednesday morning, and it was circulated very extensively, advising the people not to press upon the banks for payment, and to take the notes of all banks. The magistrates held a meeting on the Wednesday morning, and they issued an order to all the rate collectors over the city to take all notes presented to them; they did all they could to allay the excitement. In accordance with the provisions of the Act of 1845 the banks held a considerable quantity of gold, but they were under the necessity of having more gold from London; upon two occasions, on the Wednesday and the Thursday mornings, the 11th and 12th, large remittances of gold from London arrived about 10 o'clock in the forenoon; it was taken down in waggons to the banks, and escorted by a strong police force, and no doubt, seeing such immense quantities of gold come, excited a great commotion in the town. . . .

34. It has been observed that the panic in Glasgow had ceased before the Treasury Letter was issued, and that the demand at the Bank of England for advances and discounts did not cease with the publication of that letter; after which date it cannot of course be attributed to any fear that there was a limit to the quantity of bank notes. On the contrary, we have seen that the advances by discount kept rising continually, and though the rate of 10 per cent. was still maintained, they rose from £15,900,000, at which they stood on the day preceding the issue of that letter, to £21,600,000 on the 21st November. It is obvious, therefore, that the principal causes of the commercial crisis of 1857 must be sought elsewhere. That calamity cannot be attributed exclusively or chiefly to panic occasioned by the operation of the Act of 1844. Since, too, the difficulties here experienced took their origin from America, where no such law is in force; and that crisis was felt in still greater severity than here, by countries in the north of Europe, whose currency is regulated by laws widely different from ours, it remains for your Committee to inquire whether any cause or causes, common to all those countries, and sufficient to account for the occurrence of commercial disasters in them all respectively, have been disclosed by the evidence.

35. For a general review of the failures which occurred in England your Committee have been indebted to Mr. Coleman, and to Mr. Ball, of the firm of Messrs. Quilter & Ball, both eminent accountants in London. These gentlemen do not profess to have studied abstruse questions of currency; they do not represent themselves as particularly conversant with the operation of the Act of 1844. They, however, assign what appears to your Committee an adequate cause for the recent commercial crisis. Availing themselves of their experience in 1847, the affairs of which have now been finally closed, to illustrate the transactions of 1857, which still appear in estimate, and are therefore liable to correction, they ascribe the calamities of both periods to the same principal cause, viz., the great abuse of credit, and consequent overtrading. They notice also this difference between the two periods: many of the houses which fell in 1847, they say, had once been wealthy, but had long ceased to be so. Those of 1857 had, with few exceptions, never possessed adequate capital, but carried on extensive transactions by fictitious credit. In 1847, for example, one house, which had been originally wealthy, failed with liabilities amounting in the whole to upwards of £1,800,000, of which not quite £1,000,000 were to be paid by other parties, leaving more than £800,000 the direct liabilities of the house. The capital, as represented in their books at the time of suspension, was £215,000, and the assets, according to their own valuation, £800,000, or nearly sufficient to meet the whole of their liabilities. Very different, however, was the valuation of the accountant, who estimated their assets at £185,000, and even that was materially diminished in the result. The dividend ultimately paid was only 9*d.* in the pound. This firm, originally merchants, insensibly advanced their capital to planters in the East Indies, until it became necessary for them to be the planters themselves. They then were compelled to obtain advances from others, which they accomplished by the sale and circulation of bills in the East Indies upon the house to a great extent. Obtaining credit in that manner they postponed their fall many years, and ultimately fell, paying only 9*d.* in the pound. In this case advances had been made on the credit of the next year's crop. This was an extreme case, and was connected with peculiar considerations at that time

affecting the price of colonial produce, the principal property of the house. But Mr. Coleman, from whose evidence these particulars have been taken, says, that the estates which came under his notice as insolvent in that year paid generally very small dividends, not averaging more than 4*s*.

36. Another example of the same period is described by Mr. Ball as follows: it was that of a house which failed in 1847; they were engaged very largely as merchants in this country, and they were a house of very old standing. In the course of their business they came under advances to a house in one of the colonies, on the security of the crops to be sent forward from time to time. The parties to whom those advances were so made failed to repay them; that is to say, to recoup the London house for them; and eventually the London house was obliged to take upon themselves the business which was originally conducted by those whom they accommodated with advances; in other words, the merchant in London did practically become the planter and the owner of estates. After he had so become the planter, his position was changed from that of being a person who made advances, and he himself found it necessary to obtain advances. Most likely the course would be this, that the house on the other side, perhaps the correspondents themselves of the London house, and it might be identical with the London house, would draw upon the London house, or draw upon some third party and remit to the London house; which bill the London house would take to its banker and get discounted, and by that process would be placed in funds to provide from time to time for its own engagements. The result of which would be to sustain for some time the credit of the house, after the capital of the house had been exhausted. The effect would be to enable them to hold produce in expectation of better prices; the longer it was continued the heavier would be the ultimate loss. After an interval of 10 years, this house has, within the last few months, paid a final dividend, making a total of 1*s*. 10*d*. in the pound. . . .

37. Your Committee have thought it not irrelevant to place on record these instances, which it was not in the power of their predecessors in 1848 to give, because they furnish an instructive

example how readily misfortunes are at the time attributed by the sufferers, and others sympathising with them, to the operation of statutory enactments,—which misfortunes, upon a full review of all the circumstances attending them, it is obvious that no wisdom of the Legislature, no regulation of the currency, could have prevented.

38. Your Committee have before them the particulars of 30 houses which failed in 1857. The aggregate liability of these houses is £9,080,000, of this sum the liabilities which other parties ought to provide for amount to £5,215,000, and the estimated assets £2,317,000. Besides the failure which arose from the suspension of American remittances, another class of failures is disclosed. The nature of these transactions was the system of open credits which were granted; that is, by granting to persons abroad liberty to draw upon the house in England to such extent as had been agreed upon between them; those drafts were then negotiated upon the foreign exchanges, and found their way to England, with the understanding that they were to be provided for at maturity. They were principally provided for, not by staple commodities, but by other bills that were sent to take them up. There was no real basis to the transaction, but the whole affair was a means of raising a temporary command of capital for the convenience of the individuals concerned, merely a bare commission hanging upon it; a banker's commission was all that the houses in England got upon those transactions, with the exception of receiving the consignments probably of goods from certain parties, which brought them a merchant's commission upon them; but they formed a very small amount in comparison with the amount of credits which were granted. One house at the time of its suspension was under obligation to the world to the extent of about £900,000, its capital at the last time of taking stock was under £10,000. Its business was chiefly the granting of open credits, i.e., the house permitted itself to be drawn upon by foreign houses without any remittance previously or contemporaneously made, but with an engagement that it should be made before the acceptance arrived at maturity. In these cases the inducement to give the acceptance is a commission, varying from ½ to 1½ per cent. The acceptances are rendered available

by being discounted, as will appear hereafter, when the affairs of the banks which failed come under our notice.

39. The obvious effect of such a system is first unduly to enhance, and then, whilst it continues, to sustain the price of commodities. In 1857, that fall of prices which, according to Mr. Neave, far-seeing people had anticipated, actually occurred. Tables have been put in by more than one of the witnesses, exhibiting an average fall of 20 or 30 per cent., in many instances much more, upon the comparison of July 1857 with January 1858. It needs no argument to prove what effect such a fall must have upon houses which had accepted bills, on the security of produce consigned, to the extent of one hundred times the amount of their own capital. . . .

40. This practice appears to have grown up of late, and to be principally connected with the trade of Sweden, Denmark and other countries in the north of Europe. One house at Newcastle is described as conducting before 1854 a regular trade in the Baltic. They were not great people, but were respectable people, and were doing a moderately profitable trade. They unfortunately entered upon this system of granting credits; and in the course of three years the following result ensued; viz. in 1854 their capital was between £2,000 and £3,000; and in 1857 they failed for £100,000, with the prospect of paying about 2*s*. in the pound.

41. For other instances of this abuse of credit, your Committee refer to the evidence, concurring entirely in the opinions expressed by the witnesses, that the great abuse of credit is a feature common to the two years 1847 and 1857, and has been, in their judgment, the principal cause of the failures that took place in those years. . . .

42. The commercial crisis was very little felt in Ireland until the failure of some of the banks in England and Scotland. The trade of Ireland, with the exception of that of Belfast, being little connected with the United States, did not feel directly the effects of the failures there, but when failures began to take place at home there was an internal pressure consequent upon them, which, about the early part of the month of November, manifested itself severely in a demand for gold by depositors and holders of notes, and there was a run on the savings banks. The Bank of Ireland

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advanced to the banks in Ireland requiring gold to the extent of about £250,000; and they were obliged to draw from the Bank of England from £1,000,000 to £1,200,000 besides. Belfast has a large trade with the United States, as well as a constant intercourse with Scotland, but there was no alarm until the time of the Scotch Bank failures. There was then what had never been known before in Belfast since the institution of the joint stock banks, a considerable run for gold in exchange for their notes. But the amount of gold which they held under the Act of 1845 was a source of strength. The banks appear to be well constituted, and no serious results ensued.

43. In London no bank failed. In Liverpool the Borough Bank, in Glasgow the Western Bank of Scotland, in Newcastle the Northumberland and Durham District Bank, failed in the months of October and November last. The City of Glasgow and Wolverhampton Banks suspended payment, but have since resumed.

44. Your Committee have examined Mr. Joshua Dixon who in August 1857 first assumed the post of managing director of the Borough Bank; Mr. Fleming, who has been since July 1857 assistant manager, manager or liquidator of the Western Bank of Scotland; and Mr. Kirkman Hodgson, a Member of The House, and director of the Bank of England, who, being well acquainted with the trade of Newcastle, went to that town in November, for the purpose of ascertaining how far it was right that the Bank of England should give assistance to the Northumberland Bank.

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52. Each of these three banks had been in peril in 1847, and though, by the assistance of the Bank of England, they were enabled to surmount it, they fell on the next occasion of severe commercial pressure, under circumstances still more injurious both to their own proprietors and to the public. Two bill-broking houses in London suspended payment in 1847; both afterwards resumed business. In 1857 both suspended again:—The liabilities of one house in 1847 were, in round numbers, £2,683,000, with a capital of £180,000; the liabilities of the same house, in 1857, were £5,300,000, the capital much smaller; probably not

more than one-fourth of what it was in 1847. The liabilities of the other firm were between £3,000,000 and £4,000,000 at each period of stoppage, with a capital not exceeding £45,000.

53. These five houses contributed more than any others to the commercial disaster and discredit of 1857. It is impossible for your Committee to attribute the failure of such establishments to any other cause than to their own inherent unsoundness, the natural, the inevitable, result of their own misconduct.

54. Thus we have traced a system under which extensive fictitious credits have been created by means of accommodation bills, and open credits, great facilities for which have been afforded by the practice of joint stock country banks discounting such bills, and rediscounting them with the bill brokers in the London market, upon the credit of the bank alone, without reference to the quality of the bills otherwise. The rediscounter relies on the belief that if the bank suspend and the bills are not met at maturity, he will obtain from the Bank of England such immediate assistance as will save him from the consequences. Thus, Mr. Dixon states, 'In incidental conversation about the whole affair, one of the bill brokers made the remark that if it had not been for Sir Robert Peel's Act, the Borough Bank need not have suspended. In reply to that, I said, that whatever might be the merits of Sir Robert Peel's Act, for my own part, I would not have been willing to lift a finger to assist the Borough Bank through its difficulties, if the so doing had involved the continuance of such a wretched system of business as had been practised; and I said "If I had only known half as much of the proceedings of the Borough Bank while I was a director" (referring to the time previous to the 1st of August, when I became a managing director), "as you must have known, by seeing a great many of the bills of the Borough Bank discounted, you would never have caught me being a shareholder"; the rejoinder to which was, "Nor would you have caught me being a shareholder; it was very well for me to discount the bills, but I would not have been a shareholder either".'

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60. For the opinions of the most eminent writers on the subject of the currency, your Committee refer to the Evidence taken in

1857. It is interesting in the highest degree to all who make the scientific study of the most abstruse questions of political economy their pursuit. But a review of that Evidence would appear necessarily to involve subjects of controversy on which your Committee would not be able to arrive at any conclusion, without much difference of opinion, and they are therefore desirous of excluding these subjects from their Report. That the public welfare in times of commercial disaster requires the maintenance of an adequate supply of bullion at the Bank, is the opinion of Mr. Tooke, Mr. Newmarch, and Mr. Mill, as well as of Lord Overstone, Mr. Norman, and Mr. Hubbard. That the supply necessarily maintained in the coffers of that establishment, under the provisions of the Act of 1844, is greater than that which was ever maintained under circumstances of pressure in former times, is a fact beyond dispute. During the crisis of 1825, the bullion fell to £1,261,000; in 1837, £3,831,000; and in that of 1839, £2,406,000; while the lowest points to which it has fallen since 1844, have been, in 1847, £8,313,000; and in 1857, £6,080,000. That the opinion of the present Bank directors is strongly in favour of maintaining the Act of 1844, appears in the Evidence. They say the assistance which they gave to the public, would not have been ventured on by them except for the Treasury Letter; nor would they have ventured to act on that letter if the bullion had been much lower than it was; for they must then have begun to think of the convertibility of the note which it would be their first duty to maintain; they attribute the maintenance of that amount of bullion to the regulations provided by the Act; and while they affirm that the present Court of Directors, having had more experience and having seen the gradual working of the Act of 1844, would probably, in their discretion, have adhered closely to the very regulations which the Act required of them; yet, if they had not done so, but had been induced to issue more than the proportion which the law allowed, more gold would have gone out by the action of the foreign exchanges, and the consequences would have been that they would have been left with less gold as the panic came on; and then even with the permission to issue more notes, they would not have felt warranted in hazarding the circulation by doing so. They further state that, for these reasons it appears,

that the adoption of the policy which the Act now in force required, placed the Bank of England in such a position that it was enabled at the time of severest pressure to afford a larger aid to the commercial public than would otherwise have been in their power; that the true judgment of the Court would act in unison with the law; but yet it is not expedient to expose them to the influence of such a pressure as would inevitably be applied at such a time; and that, upon the whole, with a view to the operations of the Bank, including in that category their being able to afford aid to the commercial public, at the time of severest pressure, the Act of 1844 operated not as a fetter, but as a support, decidedly. They therefore recommend that no relaxation should be made in the provisions of that law.

61. In this opinion the Governor of the Bank of Ireland, the representatives both of the chartered and the unchartered banks of Scotland, the chairman of the association of private country bankers, and Mr. Alderman Salomons, of the London and Westminster Bank, concur.

62. Those who advocate what is called the theory of the Act of 1844, are guided by the following principles. They regard bank notes as being for every practical purpose, equally with the gold they represent, the money of the country—the measure of value—that which extinguishes debt,—not as a mere form of paper credit, depending on the credit of the issuer, and constituting only the evidence and vehicle for transfer of a debt which still continues. If complete effect were given to their view, the result would be that for the whole United Kingdom there would be one description of note only, issued by the State, based on bullion in the custody of the State. This note, so secured by bullion, would be a legal tender everywhere, except at the place of issue. Experience having shown that even in the times when the paper circulation is most contracted, the sum in circulation with the public at large can never fall below a certain amount, and cannot therefore be presented to the Bank for payment in gold,—they are satisfied that to this extent—so limited by experience—the actual deposit of bullion may safely be dispensed with, the notes in question resting on the security of the State. This is their

justification for the permission accorded to the Bank of England to issue 14 millions of notes without the deposit of a corresponding amount of bullion. They consider any addition to the circulating medium of the country to be the act of the private individual who carries bullion to the Mint to be coined, or to the Department of Issue to be exchanged for notes; fixing the standard of money, and verifying the conformity of the pieces therewith by either of these processes to be the duty of the State; the use of money, and that only, they regard as the province of a bank, whether of a private person or incorporation, or of the banking department of the Bank of England.

63. These advocates of the theory, as it is called, of the Act of 1844, are far from contending that their theory is completely carried into effect by the provisions of the Act. The origin of that legislation is thus referred to by Lord Overstone:—'I had no connexion, political or social, with Sir Robert Peel. I never exchanged one word upon the subject of this Act with Sir Robert Peel in my life, neither directly nor indirectly. I knew nothing whatever of the provisions of this Act until they were laid before the public, and I am happy to state that, because I believe that what little weight may attach to my unbiassed conviction of the high merits of this Act, and the service which it has rendered to the public, may be diminished by the impression that I have something of personal vanity in this matter. I have no feeling whatever of the kind. The Act is entirely, so far as I know, the Act of Sir Robert Peel, and the immortal gratitude of this country is due to him for the service rendered to it by the passing of that Act. He has never been properly appreciated; but year by year the character of that man upon this subject will be appreciated. By the Act of 1819, Sir Robert Peel placed the monetary system of this country upon an honest foundation, and he was exposed to great obloquy for having so done. By the Act of 1844 he has obtained ample and efficient security that that honest foundation of our monetary system shall be effectually and permanently maintained, and no inscription can be written upon his statue so honourable as that he restored our money to its just value in 1819, and secured for us the means of maintaining that just value in 1844. Honour be to his name.'

64. But it does not appear by a reference to the speeches of Sir Robert Peel that he propounded the two measures of 1844 and 1845, as measures of theoretical perfection; on the contrary, they can only be regarded as having been designed to accomplish a great practical object by the least possible disturbance of existing interests. Thus Mr. Rodwell: ' Then the general result of those interviews was to leave upon your mind the impression that the measure was intended to be a great step in advance towards the establishment of one central issue, which was to be arrived at by voluntary arrangement?—I thought that the tendency of the views of Sir Robert Peel was, that that would be a natural result; but I thought that his view was, that whether that consequence ensued or not, the arrangement was a continuing arrangement with the country bankers, in order that that Act might pass without any opposition on their part.'

65. And Sir George Clerk, the Deputy Governor of the Bank of Scotland, who was Secretary of the Treasury in Sir Robert Peel's Administration in 1844 and Vice-president of the Board of Trade in 1845, and intimately acquainted with all that passed in reference to these measures, ' In the debate of the 25th of April 1845, with reference to the £1 note circulation, Sir Robert Peel said, " Whether or not the importance attached to the continuance of the privilege (of issuing £1 notes) can be perfectly justified by reason or argument I know not. Whether there be not an undue value attached to them may be a fair question of doubt; still, in attempting to introduce principles which I believe to be good, I will not attempt to shock even the prejudices of the people, or to run the risk of encountering that opposition which I knew I should have to encounter from Scotland almost universally. Without guaranteeing, therefore, the continuance of these notes, all I can say is, that we do not propose to prohibit them at present; I say nothing, however, as to the future. The discretion of Parliament must be left unfettered in respect to them. If the continuance of this privilege affects no interests, if it has no injurious effect upon the circulation either of Scotland or of other parts of the empire, there is no doubt whatever that a future Parliament will entertain the same forbearance, and will not disturb the settled habits of business of a whole country, or

run counter to its feelings, for the mere purpose of carrying out some theoretical principle ".'

66. Your Committee have examined the operation of those statutes, not with a view to ascertain whether they constitute the most perfect system conceivable for regulating the paper circulation of an empire, but rather whether their operation has been such as to secure the main object for which they were designed. The main object of the legislation in question was undoubtedly to secure the variation of the paper currency of the kingdom according to the same laws by which a metallic circulation would vary. No one contends that this object has not been attained.

67. Mr. Rodwell says that before the Act of 1844 the country bankers were not all aware of the consequences of their issues; that if they had been, such disasters would never have arisen, as arose in 1825; and he knows the practice to have been that it was considered as a part of the business of a country banker to get out as much of his issues as he could, which eventually turned back upon himself when he did not expect it, and was least prepared to meet it. He says that before 1844 they did not so fully understand the laws which ought to guide a banker in making his advances; but that now they look to the unemployed notes (in the Bank of England) as an infallible index of what it is necessary for the Bank of England to do, and for the country bankers to do also. In recent times the increased facilities of intercourse and of banking have increased the rapidity with which notes find their way back to the banker who issues them; while the restriction of bank notes in England and Wales to sums not less than £5 excludes them in a considerable degree from the retail transactions of the country. It may be laid down that in the opinion of every practical witness who is an advocate for the convertibility of the note, the amount of bullion retained in the coffers of the Bank under the operation of the existing law is not greater than a due regard to prudence would require, even if the law were altered. It appears that the present law ensures the maintenance in the coffers of the Bank of an adequate amount of bullion, whilst the history of past years proves that such an amount had not been maintained by the unassisted wisdom and firmness of the Bank

Directors; and the present Court of Directors are unanimous in desiring that they should continue to be fortified by the provisions of the present Act.

68. No complaint against the Act of 1844 has been more popular, or more commonly employed out of doors, than one which may be expressed in the following words:—'That the trade of the country has increased, that a larger issue should be allowed, to supply the increased requirements of commerce; and that therefore a larger amount of notes, unrepresented by bullion, should be issued.' The question is thus disposed of by Mr. Weguelin in 1857:

'Do you consider that if the limit imposed by law of £14,000,000 were altered, for example, to £16,000,000, it would in truth add £2,000,000 to the active circulation?—By no means.

'Will you state what you think the effect really would be?—The effect would be either that those £2,000,000 would be held in the reserve of the Bank, or, in case it occurred that the increase took place at a time when there was an adverse exchange, those £2,000,000 would be exported from the country, and all the other figures would remain precisely the same.

'It would not add, under any circumstances, to the active circulation of the public?—It would not.

'You consider that the action would be, that either it would be added to the reserve of the Bank, or that the bullion held by the Bank would be *pro tanto* diminished?—That would be the action.

'Is there, in your opinion, any sufficient inducement, on the ground of public interest, to make an extension beyond the present limit of £14,000,000?—I see no advantage or particular object to be gained by it.

'The advantage of saving £2,000,000 of capital would not, in your opinion, be equal to the mischief that might result from the change?—I think it would be of an insignificant character, and it would diminish the amount of actual reserve of bullion in the country.

'Would not those £2,000,000 go out of the country at the

first adverse exchange, and not come back; would not that be the ultimate effect?—That would be the ultimate effect.'

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71. It is here necessary for your Committee to advert to the question, whether the law should be left, subject only to that power which was contemplated by Sir R. Peel and Mr. Huskisson, and was actually exercised by the two Governments of 1847 and 1857; or whether, on the one hand, provision should be made in advance for such contingencies, and the conditions expressly laid down on which the issue of an increased number of Bank notes may in the time of pressure be allowed.

72. Your Committee think that such a provision could not be regarded as any violation of the principle of the Act of 1844. To have introduced such an express provision, when the law itself was first adopted by Parliament, or even when, as in 1848, it had only been a few years in operation and was comparatively little understood,—was a far more serious question of policy and of prudence than it can in fairness be regarded at the present time. Yet the interference of Government in an extreme case must, in fact, be taken to have been contemplated by the framers of that Act. Mr. Cotton stated to the Committee of 1847–8, that this subject was considered when the Act was under preparation in 1844, and that Sir Robert Peel's opinion was thus expressed: 'If it be necessary to assume a grave responsibility, I dare say men will be found willing to assume such a responsibility.' It scarcely therefore constitutes, of itself, a sufficient ground for bringing this important and difficult subject under the review of Parliament; and may properly await the decision of the Legislature when the other branches of the subject shall again be dealt with.

73. They would, however, here take occasion to observe, that if new provisions shall at any future time be made by Parliament, the great object of securing the maintenance at the time of severest pressure of an adequate supply of bullion should be guarded with the utmost caution.

74. In considering these new provisions, your Committee assume that no hazard will be incurred with regard to the foreign ex-

changes, but that the efficient action of the law in that respect will be firmly maintained. The mischief your Committee are now considering is the domestic drain, occasioned by panic, and evidenced by hoarding, which in cases of commercial crisis supervenes upon a foreign drain, and creates an abrupt interference with the circulation, by withdrawing from it for a time, for the purpose of hoarding, a part of the ordinary circulating medium.

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81. It appears to your Committee that no mischief will result from at least a temporary continuance of the present state of things under which the Bank of England holds the powers given by the Act of 1844, subject to a notice of 12 months, which may at any time be given by the House of Commons through Mr. Speaker. They agree with the opinion expressed by Mr. Goulburn in 1844. The Bank Directors had suggested the propriety of renewing the arrangement for 20 years, with a power of giving notice at the expiration of 10, as has been done in 1833. Sir Robert Peel's Government preferred the limit, which was actually adopted, of 10 years; the Act, at the expiration of that period, to be terminable at any time upon a notice of 12 months; but, until such notice be given, to continue in force. Mr. Goulburn thus accounts for this decision. In making the proposal, he says, ' The Government were mainly influenced by the consideration that it was not advisable unnecessarily to agitate questions affecting the banking interest and the currency of the country '.

82. Your Committee have stated the reasons by which it is established, to their satisfaction, that the recent commercial crisis in this country, as well as in America and in the north of Europe, was mainly owing to excessive speculation and abuse of credit; and also, that in the time of pressure the houses which deserved assistance received it from the Bank of England in a manner in which that establishment would not have been able to give it, except for the bullion retained in their coffers:—and your Committee are satisfied to leave in the discretion of the Executive Government, the time and prudent opportunity of giving further effect to those principles by which the convertibility of the Bank of England note has been kept above suspicion.

OVEREND, GURNEY, AND CO., 1866

CORRESPONDENCE BETWEEN THE GOVERNMENT AND THE BANK OF ENGLAND

The Economist, 19th May 1866.

RELAXATION OF THE BANK ACT.

The following is the correspondence that has taken place between the Governor and the Bank of England and the Ministry on the subject of the recent pressure in the money market:—

(*Copy.*)

Bank of England, 11th May 1866.

Sir,

We consider it to be our duty to lay before the Government the facts relating to the extraordinary demands for assistance which have been made upon the Bank of England to-day, in consequence of the failure of Messrs. Overend, Gurney, and Co.

We have advanced to the bankers, bill brokers, and merchants in London during the day upwards of four millions sterling upon the security of Government stock and bills of exchange—an unprecedented sum to lend in one day, and which, therefore, we suppose would be sufficient to meet all their requirements, although the proportion of this sum which may have been sent to the country must materially affect the question.

We commenced this morning with a reserve of £5,727,000, which has been drawn upon so largely that we cannot calculate upon having so much as £3,000,000 this evening, making a fair allowance for what may be remaining at the branches.

We have not refused any legitimate application for assistance, and unless the money taken from the Bank is entirely withdrawn from circulation there is no reason to suppose that this reserve is insufficient.

We have the honour to be, Sir, your obedient servants,

(Signed) H. L. HOLLAND, Governor.

(Signed) THOS. NEWMAN HUNT, Deputy-Governor.

The Right Hon. the Chancellor of the Exchequer, M.P., &c. &c.

PANIC IN LOMBARD STREET
(Reproduced from *Illustrated London News*, May 19, 1866)

To the Governor and Deputy-Governor of the Bank of England.

Gentlemen,

We have the honour to acknowledge the receipt of your letter of this day to the Chancellor of the Exchequer, in which you state the course of action at the Bank of England, under the circumstances of sudden anxiety, which have arisen since the stoppage of Messrs. Overend, Gurney, and Co., Limited, yesterday.

We learn with regret that the Bank reserve, which stood so recently as last night as a sum of about five millions and three-quarters, has been reduced in a single day by the liberal answer of the Bank to the demands of commerce during the hours of business and by its great anxiety to avert disaster, to little more than half of that amount, or a sum (actual for London and estimated for the branches) not greatly exceeding three millions.

The accounts and representations which have reached Her Majesty's Government during the day exhibit the state of things in the City as one of extraordinary distress and apprehension. Indeed, deputations composed of persons of the greatest weight and influence, and representing alike the private and joint stock banks of London, have presented themselves in Downing street, and have urged with unanimity and with earnestness the necessity of some intervention on the part of the State to allay the anxiety which prevails, and which appears to have amounted, through great part of the day, to absolute panic.

There are some important points in which the present crisis differs from those of 1847 and 1857. Those periods were periods of mercantile distress, but the vital consideration of banking credit does not appear to have been involved in them, as it is in the present crisis.

Again, the course of affairs was comparatively slow and measured; whereas the shock has in this instance arrived with an intense rapidity, and the opportunity for deliberation is narrowed in proportion. Lastly, the reserve of the Bank of England has suffered a diminution without precedent relatively to the time in which it has been brought about, and in view especially of this circumstance Her Majesty's Government cannot doubt that it is their duty to adopt without delay the measures which seem to

them best calculated to compose the public mind, and to arrest the calamities which may threaten trade and industry. If, then, the directors of the Bank of England, proceeding upon the prudent rules of action by which their administration is usually governed, shall find that in order to meet the wants of legitimate commerce, it be requisite to extend their discounts and advances upon approved securities, so as to require issues of notes beyond the limits fixed by law, Her Majesty's Government recommend that this necessity should be met immediately upon its occurrence, and in that event they will not fail to make application to Parliament for its sanction.

No such discount or advance, however, should be granted at a rate of interest of less than *ten per cent.*, and Her Majesty's Government reserve it to themselves to recommend, if they should see fit, the imposition of a higher rate. After deduction by the Bank of whatever it may consider to be a fair charge for its risk, expense, and trouble, the profits of these advances will accrue to the public.

We have the honour to be, Gentlemen, your obedient servants,

(Signed) RUSSELL.
(Signed) W. E. GLADSTONE.

Downing Street, May 11, 1866.

To the Right Hon. Earl Russell and the Right Hon. W. E. Gladstone, M.P.

Bank of England, May 12.

My Lord and Sir,

Having laid before the Court of Directors the letter received from you yesterday, with respect to a further issue of notes, if necessary, beyond the limit fixed by the Act of 1844, we have now the honour to enclose a copy of the resolutions of the Court thereupon.

We have the honour to be, my Lord and Sir, your most obedient servants,

H. L. HOLLAND, Governor.
THOS. N. HUNT, Deputy-Governor.

Copy of Resolutions enclosed.

At a Court of Directors of the Bank on Saturday, the 12th of May, 1866:—

Resolved,—That the governors be requested to inform the First Lord of the Treasury and the Chancellor of the Exchequer that the Court is prepared to act in conformity with the letter addressed to them yesterday.

Resolved,—That the *minimum* rate of discount on bills not having more than 95 days to run to be raised from 9 to 10 per cent.

HAMMOND CHUBB, Secretary.

'THE TIMES' ON THE CRISIS AND ITS LESSONS

The Times, 1st May 1866.

MONEY MARKETS AND CITY INTELLIGENCE.

A state of panic greater than has been experienced at any time during the past nine years has prevailed in all the markets to-day. A further fall of 5 per cent. in Italian Stock and of 1¼ per cent. in French Rentes coupled with another heavy outflow of gold from the Bank of England, which suggests the early possibility of a movement of the rate of discount up to 7 per cent., have been the principal causes of the general confusion and loss of confidence. The shares of the various financial companies have been sold at any price that could be obtained and business has been adjourned till Wednesday (the Stock-Exchange being closed to-morrow) under circumstances of intense anxiety.

The Times, 9th May 1866.

MONEY MARKETS AND CITY INTELLIGENCE.

The Bank of England have again raised their rate of discount. It was advanced from 6 to 7 per cent. on Thursday last, and is now put up to 8. The movement exacted no surprise, since the figures of the returns of the past two weeks fully indicated its

probability, and as regards the price of the funds, instead of creating a further fall, it has been followed by a slight recovery. Consols, which closed yesterday at $86\frac{1}{4}$ to $\frac{3}{8}$, were first quoted at 86 to $\frac{1}{8}$, but some rather numerous purchases on the part of the public then took place, and the final bargains were again at $86\frac{1}{4}$ to $\frac{3}{8}$ for delivery and $86\frac{3}{4}$ to $\frac{7}{8}$, or $85\frac{1}{4}$ to $\frac{3}{8}$ ex dividend for the 6th of June. In financial shares, however, there has again been a continual increase of heaviness throughout the day, and although the majority of the public feel convinced that, except in the worst cases, the various companies still retain the whole or the better part of their capital intact, no one is able to see how they can be protected from the panic so as to obtain the means of meeting current obligations in the interval required for their locked-up property to become available. In former panics the leading delusion has always been that the supply of Bank notes was insufficient, and the moment this apprehension was met by a notification that the Bank might issue as many notes as it pleased every one found that there were more notes in circulation than were wanted, and the wild alarm from that moment steadily subsided. At the present crisis no such panacea is available, and the mania of terror seems likely, therefore, to proceed unchecked. Meanwhile, however, many public interests may be seriously compromised, and it is pertinent to inquire whether the leading banks and other establishments of London and the provinces, whose position is now perfectly secure, and who vehemently shut out even the smallest applications of any of the distressed companies for momentary assistance, are not bound to reflect that up almost to the commencement of panic they encouraged those companies in their vicious course by negotiating their paper, and that it is consequently a duty to concert any safe means that may be in their power to mitigate the evils they have assisted in bringing about. Of course, no one would suggest that they should entertain the idea of making dangerous advances in any case, but it is believed that much of the pervading peril actually arises in instances where a comparatively small amount would prevent a wreck and where solid, although not directly convertible security, could be handed over for five times the total required. It is the very establishments that neglected to perform their duty to the

public by originally setting their faces against finance paper when it was circulating to the extent of millions, and without tangible security, that now refuse to touch it, even to the extent of a few hundreds, with the offer of positive securities to back it. It is no reply in such cases that the companies can make calls on their shareholders. In most instances the articles of association provide that these calls shall not be made at more frequent intervals than three months, and meanwhile there may be all the danger of stoppage. Thus the entire history furnishes a deplorable example of unprecedented credulity and recklessness on all sides, followed by an equally unqualified display of mingled selfishness and terror. The inflation and the panic have been of a piece, and all attempts at reason are as vain in the one case as they were in the other. If the Bank of England and the leading joint-stock banks were to unite and to agree to make a very moderate advance upon the best assets of the few companies that might be in need of assistance, so as to give time for calls to be made or property to be realised without sacrifice, the alarm and danger that is now beginning to spread among the whole community would at once be stayed. But apparently there is little reason to hope for any united action, and unhappily, therefore, there is little that prudent people can do who see their own standing may at length be imperilled by the rush of the insane crowd beyond contracting their own engagements, however inherently legitimate, into the smallest possible compass.

The Times, 10th May 1866 (Article).

The great moral to be drawn from the present Financial Panic is that money is really not worth 30 per cent. A delusion on this point was the source of the speculations which are now proving so unfortunate. Owners of money handed it over to organised Finance Companies with the expectation of receiving four or five times the amount of interest usually returned. The Finance Companies, bound to exact these rates of interest for the satisfaction of their shareholders, were compelled to make corresponding reductions in the quality of the securities obtained for their advances, and the result is what we now see. It is not to be assumed, and is probably not the fact, that any great proportion

of these advances has been lost. The money is not lost, but it is locked up, and that, at a moment when it is imperatively needed, is almost as bad.

We have called this Panic 'Financial', because it is in the new system of 'financing' that it has originated, and because the new Finance Companies feel the effects most severely. Of course, the difficulty is complicated and aggravated by the calamitous prospect of European war, which depreciates ruinously the funds and securities of the States embroiled, and necessarily acts in some degree upon the whole money-market at home. But the depression this created is comparatively slight, and it is due, moreover, as regards our own Funds, in some degree to other causes. Mr. GLADSTONE explained the other day that the present quotations of Consols indicated, not a diminution of the national credit, but an enhancement in the value of money. Our credit stands as high as ever it did, but the highest credit in the world is not proof against competition. No national creditor doubts for a moment that he will receive his three per cent. for his money, but people have now become unwilling to lend their money at three per cent. They expect at the least three and a half, and the actual price of Consols shows that they can get it, even on Government security. It is not probable, even if the world were at peace and the share-market tranquil, that the Funds would stand now where they stood in 1859. It is something, indeed, to find that the perfection of our credit saves us so much as it does, and that Consols can only be bought to pay three and a half per cent., when judicious investments return 6 or 7, and unexceptionable securities nearly 5.

But all this, though perfectly intelligible, will not explain the condition of the 'finance' market, nor even help to explain it. The Panic in that quarter is special and peculiar, arising partly from the nature of the dealings adopted, and partly from the terms on which the capital was raised. If the capital of a Company were represented by £50 shares, and £5 only of each share had been called up, every holder of a share would be liable to a demand for £45 more. Practically this is unlimited liability, and so formidable is the obligation that nobody is willing to accept it when it looks like a reality. In theory, of course, the original investor

in such a Company should hold his money in readiness to meet any call up to the value of his shares, whether to provide for losses sustained or the needs of expanding business. But this is theory only; in practice, the speculator looks only at the actual price of the share, and thinks nothing of the contingency of further demands. If he has £50 to spare, he buys, not one share of that amount, but ten shares, with a payment of £5 each. This leaves him with a liability extending to £450 more, but of that obligation he takes little heed. In the ordinary state of the market, he would either never be called on for further payments, or, if calls were made for business purposes, he could easily and without loss make a partial realisation of his securities in order to meet them. But when a Panic sets in, this chance is gone, and gone just when it is most wanted. Calls are regarded, either with or without reason, as inevitable, and no money can be had for the occasion. At last we see shares at an actual discount—that is to say, shareholders offering money to any purchasers who will take them off their hands, and so relieve them of the dreaded obligation.

But how came these money-lending Companies to be without the money which is their stock in trade, and why should it be feared that they will call upon their shareholders for further contributions? The answer is to be found in the new system of business, which the new expectations of interest render almost inevitable. The Finance Companies raised their capital, or, in other words, obtained subscriptions from the public, on the faith of the profits which they promised. It was represented that the fabulous profits made by old banks and discount houses could, through the agency of Joint-Stock Companies, be realised by the humblest individual. A capital of a million formed by £10 shares was just as good as the same amount in the hands of a single millionaire, and would yield just as large a return. The doctrine, conditions of management being equal, was sound enough, though it should have been remembered that if there were twenty money-lenders in the market instead of one they would certainly undersell each other in some way. And they did undersell each other, not in interest asked, but in credit given. They demanded higher interest than had ever been exacted before, but they contented themselves with inferior securities. They did

not trouble themselves with petty transactions at Bank rates of profit, but 'financed' new concerns on a prodigious scale of business. In other words, they took up the whole of some great speculation—say, a railway or other such work—and found the money for it on condition of getting a lion's share of the ultimate profits. Millions are soon spent on terms like these, and presently the Companies found themselves with their capital sunk in investments which could only be productive at some distant date. In some instances, no doubt, the management was injudicious—perhaps worse, and actual losses were incurred; but in the majority of cases the advances are probably covered by material securities, only the securities are inconvertible. A Finance Company, with its assets represented by an unfinished railway, is naturally in difficulties. It may possess property to the extent, perhaps, of its paid-up capital, but it is not property on which money can be raised. Its only remaining resource is a 'call', and the prospect of a call puts its shareholders in such a fright that they are ready not only to give their shares away, but to pay anybody for taking them.

If it is inquired why these Companies should have committed themselves to so hazardous a system of business, the reply is to be found in the conditions on which they started. They were bound to make profits enough to provide handsome dividends and maintain the value of their shares, and they can only get those profits out of ventures proportionately exceptional. Men will not pay twice over for a thing, even when that thing is money, and a borrower who was taxed 30 per cent. for interest, balanced his account by a reduction in security. Good negotiable securities, on which money could at any moment be raised, would not have brought all this interest with them. If the customers of the Finance Companies could have offered such securities, they need not have paid 30 per cent. interest, or the fourth part of that rate; but they could give no such pledges, and so they had to comply with the demand. Lender and borrower were thus fairly matched; but the lender, on the prescribed terms of business, had no alternative. He could not get 30 per cent. and good security too, and if the shareholders insisted on the profit they could not escape the peril.

The Times, 11th May 1866 (Article).

The shock which agitated the City of London yesterday afternoon will, before this evening closes, be felt in the remotest corners of the kingdom. The suspension of payment by such a firm as Overend, Gurney, and Co. (Limited) is a national calamity. The reputation of the establishment has not been so great since its transformation from a private business into a Limited Liability Company as it was formerly, yet the estimation with which it was regarded may be measured by the fact that £500,000 was given in August last for the goodwill of the business and that six months ago the shares in the Company were at nearly ten premium, or, in other words, purchasers then believed the proper value of the goodwill to be a million more than was given for it. The names of Overend and Gurney were a household word. The 'corner house' was one of the landmarks of the City. Private bankers resorted to the firm with their spare capital, and either left it with them at the current rate of interest, or rediscounted the bills which it was the direct business of the partnership to discount for commercial men. Possessed in this way of unlimited credit, the fortunes made by successive partners were colossal, and as one after another of them died or withdrew in the course of years, the shares and capital of the dead or outgoing partners were valued at fabulous sums. This was in the last generation, when Overend, Gurney, and Co., could rightly claim to be the greatest instrument of credit in the kingdom. Younger men succeeded to the places, not, as it would seem, to the prudence, of their ancestors; but even now, in spite of diminished reputation and that loss of credit which almost always accompanies a conversion into a Limited Liability Company, it appears that the public has trusted Overend, Gurney, and Co. (Limited) to the extent of ten millions. The liability to depositors who hold bills as security is six millions, and three and a half millions are due to uncovered depositors. The paid-up capital of the Company is £1,500,000, but £500,000 of this represents the purchase-money of the goodwill, and the rest was all that was employed in the business. It follows that the balance-sheet will show eleven millions to be accounted for, and creditors will naturally be anxious to know

what will appear on the other side. The price of shares last night indicated a belief in the City of a probable surplus, but it need scarcely be said that at such a crisis the wildest guesses are always put in circulation, and prices oscillate with a rapidity and to an extent which will not allow us to put any confidence in the accuracy of the opinion they may indicate at any particular moment.

It would be idle to deny that the stoppage of such a firm as Overend, Gurney, and Co., will produce general and widespread inconvenience. The Company was practically the banker of the merchants who discounted their bills at its establishment, and the annoyance caused by the sudden interruption of a great business—to put it no higher—must be extreme. There is no reason, however, why the panic which has beset the Stock Market during the present week should be intensified by this event, still less would it justify a general want of confidence in all departments of commerce. We know that it is useless to remonstrate with persons possessed by an unreasoning panic, since, as Sir Isaac Newton said of the South Sea Bubble, it is impossible to measure the limits of the madness of a people. And the passion of fear is even more powerful than that of hope. There are men who can resist the seductions of promised profits and high premiums, but when depositors think that a stoppage is imminent, each rushes to secure his deposit in time, caring little for the consequences. It is through such a fear as this that Overend, Gurney, and Co., have fallen; the losses of the Company through the frauds of Pinto, Perez, and Co., and the lowering prospects of the Continent, depressed the value of their shares, and when the shares fell the depositors became alarmed and withdrew their deposits. If a panic were absolutely measureless, no business whatever could withstand the strain upon it. A simultaneous satisfaction of all demands is even theoretically impossible. There is, however, practically a point at which fear itself becomes exhausted, and prudent bankers and discount agents know by long experience the limits within which they may safely reinvest the moneys intrusted to them, and are, therefore, always prepared for an emergency. There is reason to believe that these sound principles are now as ever generally acted upon, and that the suspension of

Overend, Gurney, and Co., is caused by an exceptional departure from them. Overend, Gurney, and Co. (Limited) represent something more than the transformation of a private firm into a public Company. It was a transformation also of a purely discount business into a 'finance' business. The money of depositors was no longer employed in discounting commercial paper and commercial paper only; it was locked up in investments which might possibly prove remunerative after a due interval, but which did not possess the convertibility essential in the securities of a borrower and lender of money. No margin was left for losses or for a withdrawal of confidence on the part of creditors, and the first severe run on the resources of the Company has caused it to suspend payment.

If we are right in believing that the suspension of Overend, Gurney, and Co. is due to faults from which all but the most speculative of Financial Companies are free, the present state of panic may be left to subside as it must do naturally. At the same time, there is a danger that the excitement of the Money Market yesterday afternoon may be increased to-day. Not long ago men trusted everybody; it would almost seem that now they will trust nobody. An extraordinary crisis requires an extraordinary remedy, though we hesitate to believe that a run on Finance Companies is of itself sufficient to justify any interference with the ordinary course of trade. The depositors in them may be alarmed, and those who are ordinarily accommodated by such Companies may be embarrassed by a curtailment of credit; but this is the inevitable and proper consequence of an unsound course of business and of the abuse of credit. Whether the sudden stoppage of such a discount business as Overend, Gurney, and Co. would not justify and even require some vigorous measure towards supplying its place, admits, however, of question. A great machinery is suddenly thrown out of gear, and merchants and traders find their business impeded by an occurrence for which they are in no respect responsible. Other Companies and Partnerships now in existence will no doubt do their best to supply the needs of commerce, and new firms may be expected to start up competing for the business thus suspended. But existing Companies already find room for the employment of all their capital, and new Companies require time for their development. It may,

therefore, be plausibly urged that the discount business of the Bank of England should be enlarged so as to satisfy the pressing wants of the hour, and that the capital necessary for such enlargement should be raised, under the sanction of the Executive Government, by such means as may appear best fitted for a purpose purely temporary. Such a proposal can only be supported on the supposition that acceptances of persons of unquestionable responsibility cannot be discounted solely in consequence of the pressure upon the market occasioned by the stoppage of the greatest of the Discount houses. Whether this is the case now can only be determined by men who possess such information and experience as the Governors of the Bank of England. Application was made to the Bank of England to assist Overend, Gurney, and Co., but the Governors, it is said, felt that they could not help one ' financing ' business without being prepared to help all. Perhaps they also felt that they ought not to interfere to bolster up an unsound business. If that is still their opinion, we may be confident that things should be left to work their own cure; but if the Governor and Deputy-Governor were to represent to the Chancellor of the Exchequer that the ordinary course of trade was endangered by a stoppage the ill effects of which they could remove if their powers were temporarily extended, there can be as little doubt that their request would be immediately and properly granted.

The Times, 12th May 1866 (Article).

If anything can justify a suspension of the Bank Charter Act, the Panic which swayed the City to and fro yesterday may excuse the step, although we believe that the reign of terror was already approaching its end, and would have speedily ceased had no infraction of the law been permitted. Even now it is probable the licence allowed to the Bank will not be used. It cannot, however, be denied that about mid-day yesterday the tumult became a rout. The doors of the most respectable Banking Houses were besieged, more perhaps by a mob actuated by that strange sympathy which makes and keeps a mob together than by creditors of the Banks, and throngs heaving and tumbling about Lombard-street made that narrow thoroughfare impassable. The excitement on all sides

was such as has not been witnessed since the great crisis of 1825, if, indeed, the memory of the few survivors who shared that Panic can be trusted when they compare it with the madness of yesterday. Nothing had happened since the day before to justify such a fear as was everywhere shown. The Directors of a recently established Joint-Stock Bank, involved to a comparatively slight amount, had thought it prudent to avoid the run they foresaw by suspending payment; but it was known and confessed that the assets of the Company were sufficient to meet all its liabilities, and to leave a considerable surplus. Rumour, however, like the false woman in the Laureate's legend, 'ran riot among the noblest names', and left no reputation unassailed. Each man exaggerated the suspicions of his neighbour, and until a report, at that time unfounded, was circulated in the afternoon, that the Government had authorised the Bank Directors to issue notes to the extent of five millions beyond the limit imposed by the Bank Charter Act, it seemed as if the fear and distrust of the commercial world had suddenly become boundless. The statement was baseless, but it served to allay a Panic which had no solid foundation. Even the announcement that Messrs. Peto & Betts had suspended payment, with liabilities amounting to four millions, did not revive the Panic in its first intensity, and the statement that the Consolidated Discount Company and the Imperial Mercantile Credit Association had stopped, produced little effect. Men had begun to reflect on the nature of the circumstances which inspired them with such blind alarm, and when once reason is able to assert its claims to attention, its influence goes on increasing until it acquires its accustomed mastery. We are persuaded that had the Government stood firm the Panic would have subsided of itself; the men of business going into the City to-day would have felt ashamed of yesterday's madness, and if, as we expect, confidence be speedily restored, we shall attribute it to natural causes rather than to the interference of the Executive Government.

What, in fact, had happened that business men should go about panic-stricken, that the ordinary course of credit should be suspended, that the Bank of England should be compelled in mere self-defence to advance its rate of discount to 9 per cent., and that deputation after deputation should beseech, and at length

prevail upon, the Chancellor of the Exchequer to suspend the operation of the Bank Charter Act? A Discount Company, which had forsaken the business of discount brokers for that of 'financing', which had locked up its assets in securities promising to repay a high rate of interest, but incapable of conversion into cash on an emergency, had found its resources too limited to meet the calls upon them except at a ruinous sacrifice of its property, and had, therefore, suspended payment. An opinion, since verified in one instance, prevailed that other Finance Companies, which had run a short but brilliant career of success, would have to take the same step; but what reason was there to believe that ordinary Bankers had adopted the perilous policy of these Finance Associations? The dangers of Finance Companies, and of the Discount Companies, which were Finance Companies in all but name, had been foreseen and foretold, and unless the Bankers of London had departed altogether from the traditions and lessons of their fathers, there was no fear of their being in similar peril. The commercial world was beginning to see this last night, and the suspension of the Bank Charter Act coincides with the restoration of confidence. A Banker lives upon credit, but he has always before his eyes the possibility of his credit being shaken, and he therefore takes care that his assets shall consist to a considerable extent of cash, and that the rest shall be easily convertible. It is only in this way that he is able to withstand the periodic visitations of Panic which test his strength; and so well is this understood that, in every commercial crisis since 1825, the Bankers have, with rare exceptions, been unshaken. The Finance Companies have avowedly followed a different policy. They patronise speculative undertakings, which cannot prove remunerative until after a considerable delay; they 'finance' railways, canals, docks, city improvements, drainage and gas works all over the world. They are in the habit of borrowing for periods of one, two, and three years certain; and it is plain that their stability depends upon the permanence of their credit, the maintenance of a considerable cash balance, or borrowing money for such long periods that they can never be hastily called upon to meet the mass of their engagements. As matters of fact we now know that the credit of such associations may be dangerously shaken, and that the competition

among them has been carried to such an extent that they have kept the smallest possible balances unemployed, and that their liabilities are to a large amount incurred upon deposits of money at call or for periods of a few days, commonly not exceeding a week. Under such conditions, the slightest run is fraught with danger, and it is because of their co-existence that Overend, Gurney, and Co. were obliged to suspend payment, that the Consolidated Discount Company has taken the same step, and that an anxious shareholder has applied to the Court of Chancery to compel the Imperial Mercantile Association to submit to liquidation, instead of wasting its resources by the conversion of securities at ruinous rates of depreciation. The suspension of Messrs. Peto & Betts was apparently a necessary consequence of the suspension of the Companies which supplied their current demands for capital to complete their contracts. But although these events are deplorable in themselves and in their consequences, it would have been altogether unreasonable to have been inspired by their occurrence with a general distrust. A particular course of unsound business has broken down, but the position of ordinary Bankers and merchants remains unaffected. Confidence would have been surely and speedily restored had the law been preserved in all its integrity, and, though the Chancellor of the Exchequer and his colleagues probably found it impossible to resist the pressure put upon them, we cannot but regret a step unwarranted by what has occurred, or by the prospects which were immediately before us.

The Government have authorised the Bank Directors to issue notes beyond the limits imposed by the Bank Act, and a House of Commons containing an unusual number of Directors and Contractors received the announcement with considerable cheering. We must, therefore, expect during the next few months the revival of a controversy which we had hoped was settled, and an abundance of sneers at an Act of Parliament which breaks down at every time of trial. We believe, as we have said, that the suspension of the Act was unnecessary, and it can easily be proved from this week's experience that the maintenance of the law in ordinary times is beneficial, even though it be set aside periodically. The suspension of the Act was unnecessary because there were already trustworthy symptoms that the Panic was subsiding, and

it was unnecessary, moreover, because the Bank of England might have used its credit by other means, without endangering the convertibility of the Bank-note. But were it not for the Act, that confidence in the Bank of England which is the secret of the magical effect produced by a suspension of the law would be impossible. It is not that the existence of the Act causes a Panic which its infraction allays. The Panic of the current week, like all other Panics, is the consequence of an abuse of credit practised everywhere except at the Bank of England, which by the laws of its existence is prevented from adopting the evil policy acted upon elsewhere. When the time of retribution comes, and the facilities of credit, which have been abused, are no longer to be enjoyed, when distrust is rampant, and when every man suspects his neighbour, the Bank of England, saved by a beneficent law from spending all its strength in an imprudent excess of credit, comes to the rescue. We are not left absolutely helpless, because there is a reserve fund of credit always at hand upon which we can fall back. We recognise the necessity of having recourse to it on this occasion, but it is due to the Bank Charter Act that such help is possible, and the Act is justified even though it be periodically broken.

The Times, 14th May 1866 (Article).

About once in ten years the British public finds itself worth several hundred millions less than it had supposed. Its estimate of its wealth had gradually risen to a climax too extravagant to last long, and then toppled over. At every such disappointment people make the reflection that they are at least the wiser for it, that they will not be taken in a second time, or, perhaps, that they will avail themselves of the next general infatuation and back out in time. Nevertheless, the next fit comes on them like the rest, and they go through all the stages of the disease with pathological accuracy. Some, of course, are wiser, not better; for they have suffered persecution, but not learnt mercy. The multitude are fleeced and plucked as they were ten years ago, and twenty years ago, and thirty years ago, and forty years ago. We may even go on, and say fifty years, and, as it happens, a hundred and

fifty years ago, *minus* a year or two, when the South Sea Bubble burst. How is it, then, that people don't learn by experience? The answer is to be found in the individuality and peculiar circumstances of these successive delusions. Each one has such distinct characteristics that it cannot be identified with its predecessors, and can safely disclaim all acquaintance with them. Every delusion is monstrous when it is found out, and, till then, a marvellous discovery. At the earliest of the above periods England and France were simultaneously brought to believe that it was possible to multiply wealth indefinitely by the circulation of paper representing all property, fixed and movable, and by making that paper, in its turn, over and over again, the basis of an additional circulation. The precise error has not recurred, and is not likely to recur. The collapse of our inflated paper currency after the war was also an event that in the nature of things could only return after another Bank Restriction Act. The rage for industrial enterprises of a speculative and even chimerical character in 1825 had such manifest marks of folly that it seems now to tell its own tale, and on first reflection it suggests that in those days people could not have known what to do with their money. The railway mania of 1845 was so enormous and preposterous that it could not possibly recur. The public would see the impossibility of making so many lines of rail at once, and would scout the idea of profit for the attempt. Much the same may be said of other disastrous epochs. But it is forgotten that each of them was a new birth of time, and that the danger always ahead of us will also be a new birth. Error is Protean, and baffles the wisdom of that great majority which is wise only after the event, and which looks out for the foe, if it looks out at all, in the same form, the same place, and the same circumstance as at his last visitation.

The bubble which has just burst claims the title of 'Financial'. 'Finance' is a grand word for something which admits of a more modest description. We are most familiar with it in its national and imperial character. On that scale it is the art by which the sinews are found for war, by which enormous naval and military establishments are maintained, by which Courts are made splendid and dynasties secure, by which public works and even foreign allies can be subsidized, and national debts put into

a state of liquidation; by which, too, all this can be done in a way to press lightly on the people. The achievements of the art are magnificent, whether in the crisis of national distress or in the tenour of peaceful development. But that which most catches the popular eye, and gilds Finance with charms not strictly and inseparably its own, is the enormous wealth wielded and enjoyed by the professors of the art—the Financiers. They are in every country a class, a circle, and a freemasonry. This is the class to negotiate loans on any imaginable scale. Their capital, as well as their special craft, gives them the command of the market through which they can raise money from the public as a skilful agriculturist gets any crops out of the soil. As middlemen between States and the public they have the usual double profits of that position—the regular commission, and what more can be got by bold strokes and clever management. This Olympian circle has long been the object of supreme envy, and first one race of commercial Titans, then another, has fallen headlong in the attempt to force admission. The jealousy of the public, exasperated by frequent losses, has attributed to them almost absolute power over prices, exchanges, public credit, and the supply of money within reach of individuals or multitudes. Who would not be a 'Financier'? If this were impossible, who would not share his confidence and sit at his feet? If not admitted to the very table of these divinities, who would not be content to eat of the crumbs that fall from it? All crafts and monopolies have their natural enlargement, coming slowly but surely. So why should there not be a financial class of society, consisting of all possessed of natural shrewdness, some acquaintance with money matters, and a little cash or credit? Railways, Joint-stock Banks, and other Companies have now established that it is possible to diffuse among the many the profits of a few, and even if some lose everything the cautious and judicious now obtain good interest, the clever and enterprising make fortunes. It must be the same with Finance. It is true, and it has been rather lamentably conspicuous for many years, that even old-established Banks and money-lending firms have been ruined by a too intimate alliance with commercial and manufacturing enterprises. In those instances—and they are unfortunately numerous—there was always an excep-

tional explanation of the mishap. The Bank had not gone in for that business and studied 'Finance'. By some accidental connexion and gradual seduction it had made advance after advance, throwing good money after bad, and had been finally dragged down as if by a mischief external to itself. Of course, too, it was necessary to admit that the managers or directors had not shown the requisite firmness or discretion. But that was only Banking—bad Banking, possibly; it was not Finance; it was dabbling in things Bankers could not understand; but everything that could be said against it could be resolved into extraordinary circumstances, and perhaps extraordinary folly. Though instances must have presented themselves to the memory by the score, still, just as empiricism is the harbinger of science, and a successful attack may have to be preceded by bloody reconnaissances, so all these failures only indicated the opening for a profession which should do upon principle and with system what had heretofore been done weakly and recklessly, unintentionally or even fraudulently.

Such was the vision of Finance for the many which disclosed itself to the mind of the eager and credulous public a few years ago, perhaps somewhat earlier and more freely in the neighbouring capital than in ours. Be that as it may, it did not lack British converts. Thus there arose a new institution, happily compounded of all the commercial novelties which have made and unmade so many colossal fortunes. The Finance Company, or Discount Company, or Credit Company, or General Trading Company, or simple Bank, emerging from the strait-laced chrysalis into the gaudy and volatile butterfly, in the form of a Company (limited), and, for the express purpose of sharing the profits of trade, composed in one the Bank, the discounter, the railway, the iron-master, the merchant, the stock-jobber, and that specious form of limited liability which induces the hope of profits on a very large sum with the risk of a very small one. Though divided into Banks still retaining that honoured name, and Companies expressly for the management of money intrusted to them, these two classes have operated on the same ground, in much concert, and equally as go-betweens, to put the general public into a mutually advantageous relation with Companies and large speculators. The unhappy public were blind—too often wilfully blind—to a

number of considerations, too obvious and trite, one might even suppose, for repetition. They would not perceive that the art of making money, with any kind of certainty, is the prize of special talents, great industry, rare opportunity, favourable position, or singular chance. They would not consider that nobody who has discovered the way to make a fortune will willingly confide it to many others, and share it with them, if he can help. They forgot that there are always capitalists ready to secure and monopolise what is really safe and promising. They did not notice that there they were, a comparatively ignorant multitude, quite at the mercy of persons of whom they could know very little, who might or might not be good men of business, but who, at least, knew how to get hold of money. They did not reflect that in commercial enterprise 'a little learning is a dangerous thing'. They had not observed that the immense profits made by a few out of Financial operations are not out of the regular dividends—whatever they may be—but out of the forced premiums on their first starting, and the fluctuations, which it requires a quick professional eye to foresee and use. They forgot that in these matters the public are little better off than the common soldiers, while the prizes, the rank and the pay, the honour and glory, are heaped on the few in command. What is more than all, and most needful to be said, is that the public in these matters will run adrift from their old moral bearings, and forget that character is as important in commercial affairs as it is in families and households. Even if it lay in our power, we should not desire to cast the least imputation on any of the Companies or individuals who have lately come into disastrous prominence. But there is one rule which everybody will find more and more to pervade human life in all its relations, however material they may seem to be. It is, that character is the first—indeed, to most people, the only—guarantee for safety. This is a positive, not a negative matter, for character must be something you are actually acquainted with. If people choose to deal with either an Office, or a Bank or a Company, or a Society of any kind, of which they know little or nothing, except its promises, they ought to be aware that they are simply tossing 'heads or tails'. It may be right, but, so far as they are concerned, they run at least an equal risk of being entirely wrong. The shrewdest

and most experienced speculators, besides taking abundant pains to learn everything bearing on the transaction in hand, are almost invariably remarkable for discrimination of character. Their rule may not be transcendental or heroic. They confine themselves to the humble, but important points of character which tend to solvency and success. If an amasser of five millions is obliged to apply this care and use this gift in order to make them ten millions, it stands to reason that humble and uninformed individuals in the crowd cannot afford to neglect the test of character, and to run away from the irksome and cautious counsels of the men they have long known, to feel a temporary liberty with others of whom they know nothing except that they are more sanguine, and more ready to run a risk. Men too often seek in numbers, not security, a release from the restraints of a narrower circle and a closer acquaintance. If they do this, as they often do, in the management of their pecuniary resources, they will find that they have parted with that which is their chief stock in trade—their knowledge of persons and character.

The most flagrant oversight, however, in this 'Financial' mania is, that people have fancied themselves at one end of the process, when they were really at the other. Instead of being at the head they have found themselves at the tail. 'Finance', in its original sense, draws money from the people for the use of Sovereigns and Governments which possess some sort of stability, and in whose hands money does not wholly disappear, leaving no trace behind, except in rare instances. The Financier, certainly, in one sense represents the people, but his immediate task is to obtain money for the State, and he takes care that some of it shall adhere to his own palms. The people find the money, and the people pay taxes to reimburse themselves and their neighbours; so, on the whole, the gain of the people is small and doubtful. By hook or by crook the Finance Minister and his friends the capitalists have got the money out of them. In the great Finance operation of which we now witness the catastrophe the Financial Companies have been purveying, not for Kings and Governments, but for railways of unexampled daring and extravagance, contractors who can seldom know whether they are millionaires or bankrupts, speculators in cotton and iron, and even in warrants

that did not represent iron, and Companies which had purchased the interests of Banks, some of them notoriously the shadow of a great name, a sound, and nothing more.

These are things that stand or fall by success, and that cannot fall back on the loyalty and self-respect of a united people. The Finance Companies have been jackals for lions that have only themselves to think of, and feel no obligations to the unhappy materials of their daily meal. The general British public, which found itself on Friday last worth, it is estimated, £130,000,000 less than it was so recently as New Year's Day, has been occupying for several years the convenient position of taxpayers for the benefit of the Financiers and their allies, the other speculators. They have been putting the cart before the horse, and have fancied themselves masters of the movement and dividers of the spoil, when really they have been in the case of the poor cattle, compelled to drag the baggage of an army till their strength fails, when they are killed and eaten. It would be very unfair and ungracious to assert that the managers of our Finance Companies have all realised this relation between themselves and the public, or that they are not conscious of doing the best they could for their shareholders. But everybody knows what is meant by partial interests and divided allegiance. The story of a Company is too often 'the madness of many for the gain of a few'. Promoters, Directors, and officers have seldom a simple interest in the Company. They are bound in honour to the shareholder, but, perhaps, by the stronger instinct of self-preservation to some mercantile firm, or some other name on the books. When the deposits, and, as generally happens in that case, the actual managers of the Bank are committed to mercantile speculations, then there is war within and war without, and the wretched wooden horse is always within the walls, draining the garrison of its best blood.

Such a system is a novelty, and the sooner it declares itself, and holds out true colours, the better for the welfare and honour of the country. It ought at once to surrender all title to Banking, for it is a complete inversion of that process. These new Companies do not propose simply to take care of the money of depositors, but to do business for them, whatever business it

chooses, giving them a share of the profits. When Companies are bidding one against another for money, and offering even so much as six per cent. on deposits, the depositors and shareholders ought to be all forewarned that they are embarking in speculations of more than ordinary risk, for the Bank must be obtaining the high and hazardous rate of eight per cent. to cover its expenses and ordinary risks and leave so much to the depositor. The expenses of Banking must be considerable, for servants trusted with large sums, and expected to be invariably punctual and absolutely accurate, ought to be well paid. But when we find new Companies purchasing old firms at fancy prices, and starting thirty or forty branches, it is plain that nothing can carry them on but an amount of popularity and confidence which it must be impossible for any one Company suddenly to gain at the expense of all its competitors. 'Dark horses' ere this have won the prizes of the turf, but it must be hard work for a 'dark Bank' to distance a numerous and eager field of old favourites. It is impossible. But what can be darker than some of these Finance Companies, or the new position into which some old firms have put themselves to meet the humour of the day? These are undeniably houses of mercantile business, and they must, for many reasons, have more than their share of the risks of any ordinary trade. They are compromised, not in one trade, but several, none of which they can understand. Not one trade is strictly their own. What control they have is under a divided and all but anonymous responsibility. They can never really take stock, strike a balance, or use any other check upon management. All the trades they have to do with are assumed to be speculative, for the rate of interest and discount is laid on that supposition, and by the same reason it becomes impossible to expostulate, to demand explanation, to refuse further advances, and to insist on a settlement when an account, known to be speculative from the first, becomes only a little more so.

But who are really at the bottom of this huge mischief? The true authors are they who are bringing down their own houses over their heads—the public themselves. Such is the universal rivalry, and such the habit of expenditure all about us, that people will not be contented with the tedious three per cent.—a little more just now, and their souls crave for the more solid

and savoury profits of the trader. But to trade is to lose caste, and, for the means of living, to lose life itself. So the universal wish is, with a little cleverness and a happy audacity, to reap the rich harvest of trade without undergoing the primaeval sweat of the brow. People want their six, or eight, or ten per cent., and more if the wish be lawful. So they want something which, under some convenient neutral name, shall give them the interest, not of trade, but of speculation. The machinery which has now broken down, not without abundant warning, has only been devised to supply this want, though it has no doubt fed the flame. Everybody who has shared the general fascination thinks he can stop in time. That is almost impossible. The public are gregarious in their tastes and in their misfortunes. All the instincts of speculation, as well as its processes, keep the victims in the train and forbid escape. They can never persuade themselves to compound with a loss, and save what is left. They go on holding shares till the depreciated shares will no longer cover the loans, and the wreck must be abandoned to its fate. It is only what is done on a colossal scale by Railway Companies and contractors. Our readers are familiar with the fact that the contractors of the railways flying over our heads and spanning the Thames at every opening are often paid, for want of money, in shares which find their way speedily to the Finance Company, as security for the cost necessary to the prosecution of the works. The shares fall and fall. The Finance Company, if it is wise, closes with the contractor. The shares are thrown on the market, and the contractor is fortunate if he does not find himself heavily mulcted for sharing the risks of the Company. It is competition that has driven him to combine the position of employer and employed, and be both parties to his contract. Such is the universal confusion and muddling of positions, professions, trades, ranks, and classes to which a furious competition has brought us. Happy are they who know how they stand, and what they are. Whoever inherit the earth in these days, the moderate and content are the only people that keep their inheritance.

We hope and trust that the crisis is now over; and if any more houses should fall, it will not be simply by that panic which on Friday threatened to overthrow the entire commercial credit of

the metropolis. That panic, as our readers are now aware, far exceeds the proportions to which delicacy and discretion reduced it in the newspapers, though even they told a sad tale. The concession of the Chancellor of the Exchequer, not an hour too early, as it came out, has allayed the panic, and it can no longer be apprehended that any Bank may have to shut its doors on the refusal of the State to lend its own inexhaustible credit for the passing hour. But now that the panic is over, we approach the facts of the case, and if they are no longer alarming, they are most extraordinary—passing, we should think, the largest anticipations of the alarmist. We abstain from names and particulars, but the disclosures made to the Bank of England and the Chancellor of the Exchequer on Friday simply show that even our largest Banks, those in the best repute and with the largest business, have been going on, no one can say how long, upon the supposition that there never could be a run on them, that they might hold any amount of deposits with only a very small proportion of reserve to meet them in the time of need, and that they simply relied on the aid to be obtained from the Bank, if necessary by a suspension of the Act. That measure has not been left, as many hoped, to its purely moral force. The Bank has had to draw on its resources to an extent for which we believe only one parallel can be found in its history. It now devolves on the Banks and Financial Companies to make good their position in something like a calm after the storm.

The Times, 15th May 1866 (Article).

The Panic may be said to have passed away as suddenly as it came. On Saturday the City breathed again; yesterday the wonted feeling of security had returned and suspicion was no longer master of the situation. Commerce has had its crises before, but it must be confessed that none has ever come upon us so sharply and so suddenly as that from which we are now escaping. The week before last—nay, as late as Wednesday—nothing had happened to excite unusual alarm. The Bank rate of discount was not so high as it had been again and again in the last three years, and though the glories of the Finance Companies had begun to pale, and it was known that the Imperial Mercantile

Credit Association was tottering, there was no reason to apprehend any panic in consequence of a collapse which was distinctly foreseen. It was the suspension of Overend, Gurney, and Co. on Thursday which awoke the terror of creditors. The name of the firm was historical, and the magnitude of its liabilities showed that the mass of depositors thought as highly of the public Company with limited liability as of the private partnership. It was notorious that the spare money of town and country bankers had often been deposited with Overend, Gurney, and Co., or, at all events, had been employed through their agency, and all well-informed men dreaded the effect of the suspension of such a house upon the popular imagination. Friday showed that their apprehensions were well founded. Depositors ran to the Banks to get back their deposits, and the Banks, unprepared for such a sudden rush, ran to the Bank of England to draw out their reserves and to beg for further assistance. Four millions of money were lent by the Bank of England during the day in addition to deposits repaid, and, though a considerable part of the money thus withdrawn found its way back, the cash in hand fell from £5,727,000 to something under £3,000,000. This reserve was amply sufficient to meet all the liabilities of the Bank of England, but it is evident that the assistance it had rendered on Friday to Bankers in distress could not be repeated. The situation was full of danger, and amply justified the interference of the Executive Government. Symptoms, indeed, were not wanting on Friday night that the bitterness of the crisis was past; but it was quite possible that things might yet take an unfavourable turn, and the suspension of the Bank Charter Act, under the circumstances, was a proper act of caution.

We are disposed to make every proper allowance for the conduct of the London Bankers. A Banker makes his profit by reinvesting the money left in his hands, and it is quite impossible that such a trader should be prepared at all times, at a moment's notice, to repay all his creditors. It is, however, plain that on this occasion many of the London Bankers were wholly unprepared. Their cash reserves were not merely inadequate to meet the demands upon them—they were almost altogether wanting. The competition between the Banks for custom, and the endeavour on the part

of the Joint-stock Banks to outdo one another in the magnitude of their Dividends, had induced them to trade upon cash balances dangerously limited. When the rush came they had nothing to do but to betake themselves to the Bank of England and beseech the Directors to re-discount the bills they produced from their bill-boxes. An attempt was thus made to convert the reserve of the Bank of England into the reserve of all the Banks in London. The Bank of England has about six millions of money in its coffers to meet liabilities of about twelve millions, and under no circumstances conceivable as practically arising would this proportion be found deficient. But if Private and Joint-stock Banks keep cash balances amounting to little more than five per cent. of their liabilities, they have no right to expect that they can escape the consequences of their recklessness and improvidence by resorting to the Bank of England with bills to be re-discounted. In any case, if they do rely upon such assistance, they ought to be prepared to pay the famine prices upon such a general competition for what is after all a limited supply. The Bank of England is as much a trading Company as any other banking association—Private or Joint-stock—in Lothbury or Lombard-street; the Directors of the Bank of England owe the same duty to their stockholders that the Directors of any other Bank do to their shareholders. They are bound in the first place to keep money enough in hand to be ready for any contingency, and in the next to invest the surplus on the best terms consistent with safety. The deputations, composed, we are told, 'of persons of the greatest weight and influence, and representing alike the Private and Joint-stock Banks of London', which presented themselves in quick succession in Downing-street on Friday had neglected these considerations, and the one thing they sought was to compel the Bank of England to surrender the advantage it had gained by the superior prudence of its Directors. The thrifty were mulcted for the benefit of the unthrifty; the foolish virgins made such a clamour that they compelled the wise virgins to share their oil with them, whatever might be the consequence. The suspension of Overend, Gurney, and Co. was the first cause of the panic. The too scanty reserves of London bankers aggravated it; and the credit of the Bank of England was called upon to allay it. We do not

disapprove the action of the Government; on the contrary, we believe that what they did was inevitable under the circumstances; but it is right that the blame of having conduced to the crisis on Friday night should be borne by those who are properly answerable for it—that the Bankers, Bill-brokers, and Merchants who discounted bills at the Bank of England to the extent of four millions on that day should not escape the condemnation which their wilful carelessness as to their own stability deserves.

Permission was given to the Bank of England on Friday night to override the provisions of the Bank Charter Act, and the Panic abated on Saturday morning. It is an easy conclusion that the Bank Charter Act was the cause of the Panic, and the conclusion is apparently strengthened when it is remembered that the Panics of 1847 and of 1857 were stayed by similar infractions of the law. It may be plausibly argued that as the liberty to disregard the Act dissipates the fear of universal insolvency, the restrictions imposed by the Act are the circumstances which make universal insolvency probable. It must, however, be remembered that there were Panics before the Act was passed, as there have been since; but before 1844 the solvency of the Bank of England itself was jeopardised whenever a Panic arose, and, in fact, a suspension of payments by it was more than once found necessary. It must also be borne in mind that the action of the Bank of England before the suspension differed in no particular from what it would have been had the Act not been in the Statute-book. The truth is that no law can prevent a crowd from being possessed by the passion of fear, and it is well if an enactment primarily designed for other objects can serve to allay a terror blindly excited. The first end of the Act of 1844 is to secure at all times and under all circumstances the convertibility of the Bank-note. This result, never before realised, it has perfectly accomplished, but to do so it is necessary to maintain a certain reserve of credit. A Panic breaks out, the ordinary functions of commerce are suspended, and the mutual confidence without which civilised life is impossible seems to be at an end. A suspension of the Bank Act at such a time enables the Bank of England to throw its credit over those that are discredited, and the terror ceases, but had it not been for the Act and the power which it keeps in

reserve it must have been allowed to run its course. A simple analogy will explain what is, however, not difficult to be understood by itself. A reservoir of water is formed to supply the inhabitants of a town, in which soon after a fire breaks out. The water is intended to be drunk, and it would be better that the fire should exhaust itself than that the inhabitants of the town should die of thirst. But if there be more than enough water in the reservoir to satisfy their daily needs, the surplus may properly be devoted to the unlooked-for contingency. The fire is put out; but the existence of the reservoir is not the cause of the fire,—it is the secret of its extinction. In the same way the existence of the Bank Charter Act is not the cause of a Panic—a Panic springs from universal and unreasoning distrust—but the Act does keep in reserve an amount of credit which is capable on an emergency of being applied to support the reputation of those who are unjustly suspected. It is in this way that the suspension of the Act alleviates a Panic, and enables those who were terror-stricken on Friday to breathe freely to-day. But while the Act is thus justified, we must repeat that those ought most severely to be reprehended whose culpable abuse of the facilities of credit led to the frightful reaction of last week, who so far forgot the first duties of their position as to leave themselves unable to meet the most ordinary demands of their creditors, and who seek at last to hide their own improvidence in clamorous denunciations of those who had been more prudent, and of a law which no otherwise affected them than it helped to relieve them of embarrassments into which they had carelessly drifted.

The Times, 16th May 1866.

MONEY MARKET AND CITY INTELLIGENCE.

The panic continues to abate, and the indications increase that, although many difficulties must yet be looked for, the effects of the shock will be less general and disastrous than on former occasions. Many even of the embarrassments that may yet have to be chronicled could, it is believed, with moderate assistance be entirely averted. One reason for this comparatively satisfactory condition consists in the fact that the crisis has come after three

or four years of real trading prosperity, when the country was inherently more wealthy than at any previous date, while another favourable circumstance has been that the threatenings of a Continental war, on the one hand, and the salutary operations of our currency system, on the other, have for months past tended to arrest the mad career of the speculative public, and to cause many of the additional schemes to which they would otherwise have been committed to prove abortive. After the panic of 1847 a long period was experienced during which half-finished railways and other public works had to be abandoned, and persons were hopelessly ruined who might otherwise have partly retrieved their position. On the present occasion there is no reason to apprehend that anything of this sort to a serious extent will be witnessed. Again, in the succeeding panic—that of 1857—it was found that for a year or two a large number of the most active firms in Glasgow, Liverpool, London, and elsewhere had absolutely for a long period been shipping goods at a reckless sacrifice, for the sole purpose of having the pretext of an extensive business to enable them to draw accommodation bills. In that way an actual commercial loss of tens of millions was incurred. On the present occasion there was no very serious squandering of national wealth, and the ruin encountered has been mainly from a fall in the price of securities which were previously calculated to be symbols of wealth they did not actually represent. In this way it has been estimated at least 130 millions sterling have disappeared even since the commencement of the present year, but it is simply from the dissipation of preposterous valuations, and not from the destruction or loss of anything positive. Even of this at least half, or perhaps two-thirds, will be recovered with the return of confidence, since its enormous amount is chiefly due to the fact that every enterprise and every security in the kingdom, including the English Funds and all the best foreign stocks, have been beaten down by the disappearance of the fictitious premiums of a number of inferior concerns. The prospect, therefore, is much less discouraging than might be supposed, and it may be hoped that although the age is probably far distant when morality and intelligence will be sufficiently diffused to prevent altogether the repetition of such crises, each succeeding case of the kind will

show some advancement in the power of self-control. The general consequences of the panic of 1857 were far less disastrous than those of 1847, and there is good ground to trust that on the present occasion we shall show a further stride in our ability to bring these periods of mania within the influence of corrective processes.

The fluctuations in the English funds to-day have not been extensive. Consols, which closed yesterday at $86\frac{5}{8}$, have ranged between $86\frac{1}{2}$ and $86\frac{7}{8}$, the final price being $86\frac{5}{8}$ to $\frac{7}{8}$ for delivery, and $85\frac{1}{2}$ to $\frac{5}{8}$ ex div. for the account. An active demand for specie for the Continent has been occasioned by the discredit awakened through the suspension of the Bank Act being by many persons abroad confounded with a suspension of gold payments, and this circumstance tends to retard the recovery of our markets, since foreign balances held here in consequence of the attraction of our high rates of interest are being called for in gold, from the fact of bills on London being regarded with doubt. At the same time the discount demand at the Bank has again been extremely large, owing to the strict caution exercised by all the other establishments. On the whole, however, there has been less disposition among individual capitalists to hoard their resources, and occasionally loans have been obtained to-day at a point slightly below the Bank charge. Bank stock left off at 240 to 243; Reduced and New Three per Cents., $84\frac{5}{8}$ to $\frac{7}{8}$; India Stock, 209 to 212; India Five per Cents., $104\frac{1}{4}$ to $\frac{3}{4}$; Rupee Paper, 100 to 102 and 106 to 108; India Bonds, 10*s.* dis. to 10*s.* pm.; and Exchequer-bills—March, 13*s.* to 8*s.* dis.; June, 9*s.* to 3*s.* dis.

The Times, 23rd May 1866 (Article).

. . . Not to go so far back as the war, we have now had four 'fevers' and four collapses, easily distinguishable, all essentially trading, though colourably disguised. That of 1824 was a fever for undertakings of an ostensibly useful character. It was at a time when the English were deeply impressed with the flattering conviction that they were the improvers, reformers, deliverers, teachers, colonizers, masters of the world, and that both at home and abroad an immense number of profitable works had long been waiting for the aid of our genius and money. There was a noble enthusiasm in that movement, though the sublime was

not long before it merged in the ridiculous; for there was nothing too absurd to be made the pretence of a bubble Company. The next fever, now thirty years since, was one for loans to foreign countries, particularly those that by Revolutions or Declarations of Independence promised a new career of social development and honourable enterprise. Our political sympathy made us generous and confiding, but we certainly expected good interest, in addition to the pleasure of assisting revolutionists and founding liberal dynasties. As it turned out, we might have been more virtuous without losing more money, for we lost nearly all of it; and, what precipitated the disaster, we had promised to lend more than we possessed, and people had to sacrifice their instalments to get rid of their obligations. The next fever was ten years after, that is, twenty years ago. The empire had to be railroaded, and everybody must lend a hand. There was a great deal to be said for an enterprise so grand and so useful, as we see this day. The nation forgot that it could not do everything at once, for there was not the money, or the men, or the traffic, or hardly the labour, for the enormous number of Companies put into shape and form, and launched on the open market. But if the idea was sound and honourable, the modes were most questionable; and the Legislature itself incurred a taint of traffic which will never be quite cleared. The fever began with railways, but it involved some hundred commercial houses that had been drawn into that madness out of their legitimate channels. The next fever, ten years after and ten years since, was more purely commercial. We found ourselves producing at a very great rate, and the world seemed to be ready to take it all. So thousands took to exporting all sorts of merchandise, to all countries under the sun, upon borrowed capital. The consignments proved valueless, and the loans could not be repaid. Then ensued a collapse, which had to be met, as ten years before, by a suspension of the Bank Charter Act. That disaster was over-trading—that is, an excess of ordinary trading. This leads to the last, somewhat more plausible than the others as a matter of business, but equally an excess. It was a rage for money-lending by the medium of Companies, whether called Banks or not, at interest which our forefathers thought as sinful as marriage within the prohibited

degrees, or any other Levitical offence. The religious scruple there is no need now to discuss, though it prevailed so recently as to be the reason for some curious provisions in our earlier railway legislation. We believe the trade to be good, honest, and useful; but it is a trade, a most difficult and dangerous trade, taxing the largest experience and the keenest discrimination. But, as on the former occasions, the enormous aggregate was itself its own confutation. It is conceivable that a few millions may be laid out at high interest, but not that a hundred millions can be so invested. The world will never remember that all the world cannot grow rich. There is not room for all to expand so suddenly. In an inelastic area, and a population that only increases by a fixed ratio, it is impossible to give everybody at once twice as large a house, twice as many servants, twice as much income, and twice as large a share of comforts and luxuries. As soon as the attempt is made the weaker begin to fall, like the little fledglings elbowed, in this month of May, by their stouter brothers out of their narrow nests. Every trade is limited, and so is money-lending; nor can any mode of conducting it render the area of operation larger or the employment of the loan much more remunerative.

The Times, 25th May 1866.

MONEY MARKET AND CITY INTELLIGENCE.

It appears that the authority to suspend the Bank Charter Act has not allayed the panic. It opportunely produced a temporary diversion at a time when the alarm was taking a specially dangerous direction, but as regards the general financial circumstances of the country the state of embarrassment at the present moment seems to have reached a much worse point. On the day preceding the suspension of the Act securities of all kinds were still negotiable, although, in a large number of instances, only at a heavy sacrifice. But at present there is scarcely a single form of security in England, with the exception of Consols and first-rate commercial bills, on which any sum of the least importance could be raised. A fortnight back, if a solvent debtor pleaded for time it was open to his creditor to refuse it, and to tell him that, however unpleasant it might be, he must sell his produce, his

securities, or whatever he could make available, or at all events borrow money on them, no matter how onerous the terms. To-day, on the contrary, it is useless to use such an argument. If a person is to sell, there must be some one to buy, and for all practical purposes buyers have disappeared. The condition thus produced may be conceived if we glance at the total of those goods and securities which the ordinary public of England at all times consider themselves entitled to look upon as available. Railway stocks and bonds alone represent over 400 millions, and the shares of old and legitimate companies and the bonds of old foreign loans may be estimated at 400 millions more. Every holder of such securities has always considered that in case of a disappointment in business, or any unlooked for call for money, he had something which he could sell or get an advance upon. All demands to utilise them for temporary purposes on any material scale are now vain. When to this consideration we add the fact that at least about 100 millions of credit recently in active operation from the finance companies and speculative banks has been suddenly extinguished, with such completeness that not a shilling of it would now find currency, we can understand the trial that has fallen upon us. Even this, however, is not all, for merchandise and produce are to a considerable extent in the same category with locked-up property. And the peculiarity is, that while the capital which is thus rendered inert may be supposed to represent a thousand millions sterling, the amount of credit required to revive it would probably not be 10 or 20 millions. Perhaps it may be assumed that not more than one per cent. of the total invested property of the country changes hands each day, and if that be the case, and every man could feel certain, as in normal times, that he could have as much as he wants, it would be found that the actual call upon credit would be limited to 10 millions. Yet this, it seems, cannot be put forth, and it consequently remains to be seen to what straits the commerce of the United Kingdom will have to be reduced, and how far the evil will proceed in interfering with the employment of large masses of the people. In the great crisis of 1826 the measure that restored confidence as if by magic was simply the authority to advance three millions £ upon deposit of goods, merchandise, and other

securities', and according to the record of that time it was found that the number of applications was altogether different from what had been expected from the loudness and unanimity of the cries for relief. 'In truth,' it was observed, 'where the reigning misfortune is want of confidence, such an expedient destroys in a great measure as soon as it is taken the reasons which made it necessary to take it at all.' The recent suspension of the Charter Act was felt by every one at the time not to be the true remedy. To issue notes representing gold, and which were liable to be affected by the foreign demand for gold, was simply to render the public a prey to fresh alarm from any Continental drain, and thus to give a chronic character to the previous anxiety, and this is precisely what is being witnessed. An issue of interest-bearing credit notes at three or six months could, on the contrary, have been made with boldness, and the confidence thus restored would not have been impaired by the distrust created by the nervous anxiety with which all persons throughout the country now watch the weekly Bank return and torment themselves with conjectures as to how far, and at what extraordinary terms, the directors will dare even to dole out the relief that is still scrupulously limited to unexceptionable trade bills.

The English funds this morning opened at a fresh fall of $\frac{1}{4}$ per cent. and in the markets for all other securities prices were little more than nominal. Later in the day, partly on account of more hopeful views of foreign politics, there was a little less depression. The first bargains in Consols were at $86\frac{3}{8}$ to $\frac{5}{8}$, and the final quotations were $86\frac{1}{2}$ to $\frac{5}{8}$ for delivery, and $85\frac{1}{4}$ to $\frac{3}{8}$ ex dividend for the account. Bank stock left off at 243 to 245; Reduced and New Three per Cents., $84\frac{5}{8}$ to $\frac{3}{4}$; India Stock, 209 to 212; India Five per Cents., 105 to $\frac{1}{2}$; Rupee Paper, $100\frac{1}{2}$ to $101\frac{1}{2}$ and $106\frac{1}{2}$ to $107\frac{1}{2}$; India Bonds, 10*s*. dis. to par; Exchequer-bills—March, 18*s*. to 10*s*. dis.; June, 9*s*. to 3*s*. dis.

The Times, 26th May 1866.

The Panic

The most important movement in the Stock-Exchange on Thursday was a continuance of the fall in bank shares, the depression in which was again serious, especially as regards London and

County, and Agra and Masterman's. Profiting by the dislocation of mercantile credit, and by the belief that further failures will take place in the cotton and other trades, which are greatly hampered by the difficulty attending sales in the present state of the money-market, speculators for a fall yesterday pressed sales with extraordinary boldness. These operations have now been organised into a complete system by a clique of speculators, who seem to be more numerous outside than inside the Stock-Exchange. Day after day they make a set against some particular bank, in the same way as they did recently with the financial companies. They are well aware that by persistent sales they can greatly depress prices, and that in these anxious times a daily fall is very likely both to induce realisation by *bonâ fide* but timid holders, and to influence withdrawals of deposits or current balances by some of the customers of the banks. All this, together with sedulous dissemination of rumours prejudicial to credit, is done solely with the object of buying back the shares at a lower price. The Bank of London adds one more to the list of companies which have been destroyed by these tactics, for, however unsound, considered from a banking point of view, may have been its policy in locking up its funds indefinitely in securities of an inconvertible nature and suitable only to a financial company, that bank would not have succumbed, and been obliged to utterly sacrifice a valuable and well-established business, had it not been for the pressure by depositors and other customers, caused by the fall in the price of the shares. It is very desirable that the public, before falling victims to these speculative snares, should take counsel with sound advisers. The real nature of the depreciatory movement is seen more clearly now that the speculators, having worked their will on banks of recent formation and weak credit, are beginning to attack the older and better established institutions, which, from their standing at comparatively high premiums, present, in their view, a proportionate scope for a fall. If *bonâ fide* holders, satisfied with the soundness of their property, would but be calm and view these transient market movements with indifference, the mischief would not extend far and would soon bring its own cure. But, unfortunately, banking credit is a tender plant, especially in times like these, and the depreciation

is only too likely to work upon the fears of persons at a distance who have no means of judging accurately of the manœuvres by which it is produced. The only practical remedy at the moment would seem to consist in an organisation among *bonâ fide* holders similar to that formed by the adverse speculators. Directors ought never to be encouraged to traffic in the shares of the companies which they manage; but it is quite competent for some of the large shareholders to take counsel with their fellow partners, and, by means of a common subscription, under prescribed conditions, to commission brokers in the Stock-Exchange to buy all such shares as may be offered within a certain limit of price during the present crisis. In each case the only real question ought to be that of price. Assuming that the sales were merely speculative—and in nine cases out of ten this is the fact, at least at the beginning of a fall—the sellers would soon become tired and think how best to beat a retreat, when they found that their object was foiled, and that they could not produce any appreciable effect upon the price. The rally that took place yesterday afternoon in Agra & Masterman's Bank shares, which, after being forced down in the morning to £10, or 15*s*. dis., rebounded suddenly to £18 at the close, shows how liable speculators for a fall are, in their turn, to panic, and how easily they may be punished for any unfair practices, provided real holders have sufficient confidence in themselves and in the solidity of their property.

The Times, 9th June 1866 (Article).

There are, probably, many shareholders as well as many creditors of Overend, Gurney, and Co. (Limited) who will learn for the first time from the provisional report of Messrs. Turquand and Harding what they ought to have ascertained before investing or lending their money. A very cursory perusal of this document is sufficient to show not only that no considerable portion of the paid-up capital will ever be recovered, but that no Company ever ought to have purchased the concern at all. The truth is that Messrs. Overend and Gurney had not a sound business to dispose of on the 31st of July last, and, instead of receiving £500,000 for the goodwill of it, should have been thankful to pay a handsome

sum to any Company which should take it off their hands. The position of the old firm at this time is clearly indicated in a supplementary statement issued by the Official Liquidators, which is the real key to the subsequent history of the Company. 'The 'total on the credit side of the account then stood at £15,552,003, 'and on the debit side at £14,425,678, exclusive of the balance 'to the credit of the partners in the private ledger, amounting to '£1,126,325.' There were, however, further liabilities of various kinds to the extent of nearly £9,000,000 more, which seem to have been excluded from the debit side of the account because they were contingent on the default of other houses which were presumed to be solvent, or because they were otherwise supposed to be covered by adequate securities. It was hoped that ample provision had been made against any losses, arising from bad debts or other causes, by the apparent difference of more than £1,000,000 between liabilities and assets, by the balance in the private ledger already mentioned, and by the value of the separate estates of the partners. Unfortunately, this expectation has proved to be quite illusory. A deficiency has arisen, 'from depreciation in 'values and from other causes', which is likely to amount to at least £700,000, after all the assets, joint as well as several, shall have been realised. Though it is not very easy to follow this part of Messrs. Turquand and Harding's report, we gather from it that, whereas the partners of the old firm have already contributed about £650,000 towards a guarantee fund out of their private estates, and will have to contribute £1,250,000 more, yet the demands upon the new Company have been such as to absorb the whole of it and to leave a deficit of £700,000.

If we now turn to the 'approximate statement of the affairs of 'the Company in liquidation', we find that assets ostensibly exceed liabilities by about £400,000, and this is the sum which, subject to much certain delay and many probable deductions, the shareholders ought to get back out of their lost £1,500,000. The experience of the Official Liquidators, however, enables them to point out a number of possible slips between the cup and the lip which might scarcely have occurred to the uninitiated. They warn all parties concerned at the outset that 'at the present time the most 'carefully framed estimates may prove fallacious'. This is just

one of those paradoxes which Lord Dundreary might be pardoned for saying that 'no fellow can understand', but which is really very simple if we only look at it in detail. For instance, the largest item in the liabilities of the Company is 'to liability on bills re-discounted '£8,266,048', and another large item represents debts to persons holding security. Now, it is obvious that in the former case much depends on the ability of other firms to pay the bills in full as they arrive at maturity, and that, in the latter, the Company may either realise a surplus or be called upon to make good a loss, according as the realised value of the security exceeds or falls short of the creditors' claim. In the present 'very exceptional 'state of commercial affairs', Messrs. Turquand and Harding decline to pledge themselves to any definite opinion as to the proportion of bills which may be returned unpaid. They express a belief that the character of those held by creditors as security is, on the whole, good, but they remind the shareholders that interest is payable on them, and must be subtracted from the surplus of £266,000 which might otherwise be expected to accrue from them. They predict, on the other hand, that 'a large 'amount of the bills re-discounted' will be thrown back on the Company, and will, 'in the first instance, rank against the estate 'for the full amount.' We have here one secret of commercial failures, and an intelligible answer to the question so often asked of late—'Where does the money go?' The money goes in loans, at high rates of interest, to contractors and Companies who may ultimately be able to repay it, but who cannot repay it at short notice. It is locked up in works that require years for their completion, and, for the purpose of meeting a sudden call, it might just as well be at the bottom of the sea. There is one sentence in the report before us that explains in a few words the reason why firms of the highest credit, but which have tampered with the new system of financing, may collapse at any moment, without any premonitory symptoms of weakness. They have assets, and they have liabilities, and they have, let us suppose, carefully preserved a due relation between them, 'but in many instances the former 'can only be realised with time, whereas the latter require prompt 'payment.' Then money has to be borrowed at any sacrifice, credit breaks down, and the inevitable fate of the house that is

built on the sand overtakes the concern, not, perhaps, because it is intrinsically rotten, but because the pressure upon it is present and the means of resistance prospective.

If it be true that a profit of more than £200,000 was fairly earned by the limited Company of 'Overend, Gurney, and Co.' during the nine months of its existence, we must attribute its failure chiefly to embarrassments of this kind, inherited from the old firm. It would have had a far better chance of success had it started without the goodwill for which it had paid £500,000, but with a clear balance-sheet; as it was, it could hardly have weathered the storm of last month, even had the 'bears' not conspired to undermine it. The case of the Agra and Masterman's Bank, in which the families of so many Indian officers had invested their savings, appears to have been very different. There is every reason to believe that, although its ruin may have been precipitated by the downfall of Overend and Gurney, yet that it was directly brought about by unprincipled speculators who had made time bargains upon its shares. This infamous practice has of late been carried to such lengths as to shock even the conscience of the Stock-Exchange. An incident mentioned in our City article of yesterday will serve to show the manner in which it is carried on. A gentleman who had a large deposit in the Agra and Masterman's Bank, and who happened to be residing at the Louvre Hotel in Paris, received a letter, purporting to proceed from a disinterested correspondent, warning him to withdraw the money at once, as the Bank was in imminent peril. Of course, the real motive was to get up a general panic, to depreciate the shares, and thus to enable stock-jobbers who had 'speculated for a fall' to make a fortune by purchasing for next to nothing shares which a few days back commanded a good price. Now, we do not here deny that it may be legitimate for a man to contract for the sale of what he has not in his possession, in the hope of turning a profit by the chance of its falling in value before the time comes for delivery. This may be an honest trade, but it certainly exposes those who engage in it to great temptations. From the moment that such a transaction is concluded it becomes the direct interest of the seller to 'bear the market', by persuading everyone to sell out or withdraw deposits, and if he is

not more scrupulous than the worst of his neighbours he will not stick at falsehood to promote that end. We rejoice to see that a representation has been addressed to the Committee of the Stock-Exchange on this subject, for not even the stability of well-established firms can be proof against such operations, if conducted on a scale of sufficient magnitude. It is for those who are familiar with stock-jobbing transactions to discuss the expediency of making any contract for the sale of shares void at law where their numbers have not been specified in writing. It is our duty to point out that, unless some remedy be adopted, the London Stock-Exchange will soon acquire a shameful notoriety in Europe.

'THE ECONOMIST' AND THE CRISIS

The Economist, 12th May 1866.

The State of the City

The failure of Overend, Gurney, and Co. (Limited) has given occasion to a panic more suitable to their historical than to their recent reputation. It will be found that when that firm was converted into a private company we expressed ourselves most anxiously and guardedly as to the value of their shares. Of course we could not say what we then believed, and what was generally known, that the old firm had by most reckless management reduced one of the most profitable concerns in England to one of the most losing concerns. We can only say what we can *prove*, and though we thought this as much as we now think it, we could not say it in print without legal consequences. We expressed ourselves with guarded caution, and under the circumstances this is all which we could do. Now, no one doubts that the state of the Joint Stock Discount Company is very much like the last state of Overend and Co. *un*limited, and that there was much more excuse for the Joint Stock Discount Company than for this old partnership. The former had to make a business in opposition to extreme competition,—the latter had only to pick the best business. The plain truth is that Overend, Gurney, *un*limited, for the sake of high interest took bad securities, and in consequence someone must reap the due consequence of that badness.

As to Overend, Gurney, and Co. (*Limited*), as far as we can learn in any new business they did the best they could, but they could hardly help bringing over old business of very questionable nature from the old firm. The worst bills and securities they would strike out at once, but the rest in the common and usual course of affairs they would renew and take on. And in so doing they must have taken on some of the worst bills in England. The consequence is that they are stated (as the accounts are not made up, we cannot vouch for it) to have lost most of their paid-up capital at any rate.

We have often heard it said, and we ourselves believed that the failure of Overend, Gurney, and Co. (Limited), (which we have thought possible any time this three months) would not produce at all the effect which would have been produced by the failure of the private firm some years since. But in fact, the failure of Overend's could hardly in their most reputable days have produced a greater effect. It has been signally shown how much an old name, which all really instructed people knew to have lost its virtue, still retains its magical potency over the multitude. Lombard street has been thronged and almost stopped by curious wonderers in a way we never saw it stopped before, and on the whole we doubt if there ever was a collapse of credit more diffused and more complete.

It has hardly been observed how new an element of danger limited companies introduce. The moment the operations of the Stock Exchange depress their prices, that instant a run begins. Overend's, no doubt, deserve to go, but many companies may go which did not deserve it merely from the depression of their shares. Some cause there is generally for such depression—really sound people never suffer so; but that cause is often painfully exaggerated, and the warning is that companies which live by credit (as all banks must) should avoid transactions having even a taint of evil, so possible is it that such taint may diffuse itself and destroy their whole reputation.

But Overend, Gurney, and Co. are already to most people things of the past. Most men want to know what will happen now. Will the Act of 1844 be suspended, or will it not be suspended? We confess we conceive it *must* be suspended, and

the critical grounds of this we have at length expressed in another article; but looking only to the plain practical points, it is certain that large sums have been withdrawn from the Banking department to-day,—that notes to a great amount have gone into the country,—that discounts and advances at the Bank have swelled to an extent almost unprecedented; and if these demands have very largely trenched on the Bank reserve—if they have reduced it to such a state as in 1847 and 1857 before a Treasury letter was issued—another such letter must be issued. There may be a theory to *prevent* the Bank getting to that state, but the condition of the Banking department, when it arrives at that state, is a palpable matter—is not a matter of theory at all; it is plain insolvency and must be mended somehow.

We do not know the final state of the Bank reserve, but we do know that all the pleasing rumours of the Act being suspended, which were so rife yesterday, were rumours only. Till the Government knew what the Bank reserve was, the Government could not act. The first datum was wanting, and all other information could only be preliminary and introductory. We confess we believe that ere long the state of the reserve must be such as to require a suspension. And our main reason for that opinion is the conduct of the Bank. After a certain though very late period yesterday, they did not make advances on Government securities, and we apprehend their reason to be that their reserve was likely to be exhausted, or was in danger of being so. If it were not so, we can see no reason why the Bank should have refused the best of all securities. If the Bank of England, the sole banker of the English Government, will not advance on the securities of that Government, if it prefer to discount the bills of traders or merchants, there is no saying what may happen to any one. The Government keeps as good an account at the Bank as most people, and ought to be as well dealt with as most people.

Lord Grey in 1857 said that Exchequer bills should have been issued, and that the Act of 1844 should not have been broken. But Exchequer bills are of no use for the principal want now. If country bankers require notes for use in the country, Exchequer bills are no substitute. You must pay people in the usual currency if you are to satisfy people, and in a time of discredit unusual

measures are sure to intensify the anxiety which they are proposed to alleviate. If the reserve of the Banking Department be too low, nothing *can* set it right but a suspension of Sir R. Peel's Act. Bank notes are the only familiar currency, and it is familiar currency that is wanted.

As to the general state of the trade of the country, we have no doubt of its substantial soundness. Many monetary companies have gone, and many have yet to go. Many contractors are in the same position. There are some five millions (say) of unsecured finance paper, but the general trade of the country has nothing to do with that kind of accommodation paper any more than with any other kind. It has been carried on with a view to profit, and is profitable.

The substantial point now is—that, laying theory aside, if the Bank reserve gets down to the point it occupied in 1847 or 1857, the precedents of those years should be followed. At the time we write, nothing has been done, but before long something, according to the best of our judgment and information, must be done, and it is even possible that it may be done before our readers see these lines.

The Economist, 19th May 1866.

The Panic

We may congratulate our readers, and we own that we rejoice ourselves that the Friday on which we write is not like last Friday. Last week, Lombard street looked more like a country fair than its usual self; most people were asking—Will the Act be broken? What will Mr. Gladstone do? Several people stated to us, *on their own knowledge*, that the Act had been broken hours before it had been, or even before there had been any serious consideration of breaking it. But though this week is not one of acute agony like last week, it is the more fit for careful thought, and the recent history of the money market gives ample room for thought. There are four questions to be asked. First,

Why was there a Panic?

for many people looking back feel that they hardly know why they suffered such extreme fear, though that they did suffer it is

most certain. The answer is that this panic is more than any other which we remember—a *credit* panic. Credit, as we all know, and as has been explained over and over again in these pages, is to the last extent delicate. In this country, rightly or wrongly, reserves are used up to the last limit. The promises which we have given to pay gold on demand could not be performed by many thousand times as much gold as there is in the country. And when this is the case our whole mercantile system must always be easily injured by causes comparatively slight. Lately credit has been far more delicate than usual. It has been well known that a portion of our loanable means have been applied to inconvertible securities, and perhaps to unprofitable undertakings. 'Financing' means this; it means that those who ought to have used their funds in convertible securities have employed them in things for the moment wholly unsaleable, and very often permanently worthless. A great deal of this bad business was lying on the market, and no one knew in whose hands it was. Many people were a little suspected, and almost everybody shared in some infinitesimal distrust. Just then the house which had the greatest and oldest name for credit—Overend, Gurney, and Co.—failed. In London it was well known that their management had long been bad; that the affairs of the old firm had been disastrous; that the operations of the new company had not, and could not, retrieve them. In consequence the country world, which always trusts the London world largely, became frightened. It was disconcerted beyond example, and it did not know what to do. Even in London itself the effect, though mitigated in some degree by previous preparation, was very great. It was like a spark falling upon tinder. The diffused though slight discredit caused by the known bad finance speculations, and the uncertainty who might be mixed up in them, was at once aggravated into malignant fear. Last Friday no one knew who was sound, and who was unsound. The evil was not an over-expenditure of capital such as at other times, as in 1847, has caused a panic; nor a drain of bullion which, except for admirable management, in 1864 would have caused one, but a failure of credit from intrinsic defect. Suspicion got abroad not because our whole reserve of bullion was too low to support the credit of the country; not because our annual

expenditure had dangerously surpassed our annual saving; but because the lenders of money were *suspected* of misusing it; because the most celebrated of old houses evidently had misused it; because no one knew who else might not be to blame; because all persons under obligations to pay on demand felt they must strengthen themselves because the floating peril might come their way, and if they did not they might perish. The panic of 1866 was, to speak strictly, a credit panic—not a capital nor a bullion panic. And this is why there was such need for

The Suspension of the Bank Charter Act.

The whole mercantile community quite assent to the infraction of the Act; indeed, if it had not been broken this month, it would have been repealed next. The matter resembled what Mr. Lowe so happily said of the cattle plague report. He remarked that all the press wrote down the recommendations of the Commissioners, but the disease 'took the matter' into its own hands, and showed that they were right. Just so the 'panic' took the matter into its own hands and proved that the Act could no longer be maintained,—proved it not to theoretical minds or by fine argument, but to the great bulk of ordinary men, and by the palpable argument which strikes the massive common sense of the world. People do not indeed precisely understand *why* the Bank Charter Act ought to be suspended, but they plainly perceive that somehow it must have been.

The advantage of an expansive clause in Sir R. Peel's Act for which we last week contended was never so evident. If it is not inserted soon, the Act will be repealed soon. The present evil is that many persons think we have committed some sin, not a great one perhaps, but still a little one. They are like people who have told a 'white lie'; they do not think they have done much harm, but still they have done what they do not like much to remember, what they would not wish to do again, what rather puzzles their mind and plagues their morality.

But in a time of discredit, such as we have described, the suspension of that Act is not contrary to economical theory, but is the precept of that theory. On many points of currency doctrines there is much dispute, but on this there is scarcely any.

Lord Overstone, for example, is the best of all witnesses when it is a question of breaking the Act of 1844. He observed, and he has over and over again said the same thing, that 'there may be 'action upon the circulation arising from accidental causes, a panic, 'and therefore not controllable by principle, which the Act cannot 'regulate, and which must, if they run to an excessive extent, 'therefore be reached by some extraordinary power'. If ever they ran to an excessive extent, it was last Friday.

We showed the reason last week, and it is reason which may be recognised by all schools of currency, whether Peelite or anti-Peelite. The ordinary bank note circulation is supported by a great mass of auxiliary circulation, by a credit circulation of a more refined sort. Cheques in all ordinary times supply without fear or danger a medium of communication far more easy, much more convenient, infinitely more used than bank notes. But in extraordinary times their efficiency is disturbed. Every country bank all over England, whether a bank of issue or not, lately strengthened itself because it could not be satisfied that the usual routine of banking would be continued. The efficiency of the auxiliary credit money was destroyed, and therefore a large amount of the simpler credit money, the note, was required to take its place.

It is to be observed that the bullion reserve of the country has been quite enough. The French fancy we have suspended cash payments, but this is a total misconception. We have only done what the Bank of France could have done without breaking any law at all; if Peel's Act be broken, the constitution of our Bank will be exactly like the constitution of theirs. The suspension of our Act in a panic is a simple substitution of one sort of credit currency for another; it is a replacement of the more complicated form of that currency by the more simple. But the French mistake is a powerful argument against having, in case of panic, to break a law. It *looks* like breaking a contract, though it is not. If our machinery worked more easily, if it did not appear like an action of the Executive Government to break faith between debtor and creditor, the Continent would not be puzzled, and the discredit which now deranges the exchanges would in great part be spared us. And not only was the suspension of the Act

required by the most plain, if we may so say, by the most Peelite theory, but it was palpably necessary. We can understand it being argued that the Bank of England *ought* to manage so as always to keep a reserve sufficient to meet such times as last Friday, but we do not at all understand how it could be argued that on last Friday the Bank of England had such a reserve.

We believe that just before the suspension of the Act, no bank was—*considering the nature of its liabilities*—in so much danger as the Bank of England. It had a reserve of only £3,000,000 in town and country, and from all parts of the country demands on that reserve were pouring in every hour. Country bankers felt that they must either get more notes and more sovereigns, or give up their business; London bankers were pressed upon not only by their country customers, but by a kind of oscillating run which now went to this bank and now to that. In such a state of things the Banking department of the Bank of England could not with such a reserve be safe. Hardly any reserve, perhaps no reserve which could in the limits of probable practice be kept, would make it so. Our system of credit is so intertwined, that no one bank can stand when all other banks fall. Some people say that the Bank should have stood firm and let every one else go down. It should, they say, not have increased but have decreased its discounts; should have let its bills run off and so increased its reserve. But the bills would not have run off, for they would not have been paid. They are paid in general by the discount of other bills, and last Friday those ' other ' bills would not have been discounted except by the Bank. The Bank of England could not have increased its reserve by letting its bills ' run off '; for they would not have ' run off ', but have accumulated unpaid in its bill case. The Bank of England could not have increased its means, and over its present means it had no power. The London bankers' deposits are understood in general to amount to between three and four millions, and on Friday last must have amounted in the aggregate to a larger sum than the London reserve. These bankers would not—and we believe some of them plainly used such language—allow the Bank of England to go on while they failed. Nothing is so imitative as panic, and if one or two large bankers had drawn their balances,

all the rest would have followed like sheep, and the Banking department of the Bank of England *must* have been left bare.

Whether it be a desirable thing that one bank should keep the reserve of the country may well be doubted; we have often said that, starting *de novo* and speaking in theory, it would be undesirable. But this question is not to the purpose now. The *aggregate reserve*, taking the banking department of the Bank by itself and supposing Peel's Act to be still in force, was insufficient. Everybody was pressed upon, and the banking department of the Bank more in reality than any. In figures its reserve looks larger than that of its competitors, but only because it includes that of its competitors. It was at least as badly off as they, for it existed on their sufferance.

In some influential quarters it has been said that the Act would have worked better if no notes had been issued on securities, but if there had been five sovereigns in the issue department for every £5 note issued from thence. But this is a mistake, the Act would have worked just the same. We wanted, and wanted so much, notes in the banking department, not bullion in the issue department. There was already quite enough of the latter; piles more bullion on the wrong side of the Bank would have been useless. If there had been 15,000,000 of sovereigns or bullion in the issue department instead of £15,000,000 securities, being so much futile treasure, they would not have discounted a London bill or sent a pound more into the country.

We have argued this question, as it will seem to most of our readers, at very needless length; but it is of great importance to confute, not by mere generalities which leave no trace, but by pointed arguments of detail, the erroneous notion that the suspension of Peel's Act in a panic is a misdemeanour in the eyes of *any* recognised school of political economy as well as in the eyes of the law. We pass to the

Conduct of the Bank of England

since the issue of the letter of liberty. As far as we can judge, with a single exception, their policy has been sound, cautious, and admirable. They have given mercantile and banking accommodation, as their accounts show, to an unprecedented extent,

considering the shortness of the time under consideration and the rapidity of events within it; and as Mr. Gladstone stated in Parliament, and as is confirmed by the voice of Lombard street, they have not departed from their usual care, discrimination, and caution in the selection of securities. We have called Mr. Gladstone's a letter of liberty; it was intended to be so, not a letter of licence.

The exception of which we speak was the hesitation, the trifling hesitation, to lend upon Government security. We say the trifling hesitation, because after the statement of Mr. Gladstone last night that they had lent £2,800,000 on such security, and after what has lately been notorious in Lombard street, it would be a grave error to speak of a rare and occasional delay as if it had been a direct or common refusal. But we own that the slightness of the difficulty interposed is a reason for thinking that no difficulty should have been interposed. There was no wild speculation in the Consol market which required check or suggested reprobation. As a moral hint, the measure was needless, and as a precautionary measure it was worthless. It was expressly said that sound, respectable, non-speculative people should upon Government security receive accommodation, and there was (as we believe) nobody else at that moment to be found with Government security. The real drain was, so to say, a respectable drain, and if that was to be permitted to continue a casual speculation in Consols might have been pardoned even if it had happened; it would not have emptied the Bank till of £1,000. But probably the present policy has emptied it. The mere statement of a doubt —we are speaking of matters which we know—caused an uneasy feeling both in London and at a distance, and led all persons who had Consols to see if *they* could have advances on them, and, if they could, to take them while they were going. A slight discouragement seemed to many a premonitory symptom of future denials. So far from lessening advances on Consols, the occasional hesitation tended to augment, and we consider, in fact, augmented them.

It appears from Mr. Gladstone's statement that the Bank said they would not advance on Consols because they could be sold in the market, whereas a mercantile bill could not be so sold. But

the fact is otherwise. No considerable amount of Consols can be sold at moments when the Bank is for such purposes the only lender, and when it refuses to lend. The jobbers in stock are men of means, but they are not masters of secret hoards of *ready money*. It is not a question of price but a question of cash. How is a jobber on the Stock Exchange to create bank notes or sovereigns to buy stock with? In ordinary times if stock comes forward in unusual quantities for sale, he can with ease borrow on it, or dispose of other securities to purchase it. But in a panic these 'other' securities are probably unavailable, and if the Bank of England hesitate to lend, the other resources of the market are very scanty. *If* the Bank were, in a panic, absolutely to refuse to lend on Consols, they would not be saleable for cash.

The object, too, with which the Bank have been acting during the week should be considered. They have been making advances to allay a panic which as much as anything was a country-banker's panic. But of all terrific events to a sound country banker, the worst is that Consols may not be saleable. He has been bred in the idea that they can, as he says, 'be sold on a Sunday'. But if there is a doubt about them, all his notions are overturned, and his apprehension becomes excessive. If, too, you try to replace the auxiliary credit of the country by the Bank note (and we have shown that this is the principal object of suspending the Act of 1844), advances on Consols are especially suitable to that purpose, because the best bankers who supply and support that auxiliary credit are the very persons who hold that kind of security. They relinquish high interest to be safe and keep in good credit, and if *any* credit is to be maintained theirs surely ought to be so.

But the most interesting point is

What will happen now?

And of course on this point prophecies of detail are not possible. But some general conclusions are very certain. We believe and hope that from this time our improvement will be gradual; but still it must be interrupted by painful events, and cannot be healthy if it is too rapid. 'Finance' paper too often means bad investments, and while so much of it is held about the market credit must be tender, uncertain, and liable to vicissitudes and

shocks. Of course this applies rather to money-lending credit than to mercantile credit. A merchant is a borrower, not a lender; he will not have taken finance paper; if his business is good, and except in particular branches of speculative trade (as cotton, or pig-iron, or the ship-dealing and owning fostered by Barneds') English commerce was hardly ever sounder.

The foreign exchanges show that there has been considerable distrust and alarm abroad at the state of English credit. And when Overend's fail, and Peto fails, and an Act is done which foreigners confound with a suspension of cash payments, no one can wonder that there is anxiety. But the appearances of the last two days indicate that this fear is mitigating; there are new orders for long-dated English bills from abroad, and on the whole there is every appearance that though the immediate future must be chequered and painful, the worst bitterness of the panic is already spent and past.

The Economist, 16th June 1866.

Overend, Gurney, and Co., Limited and Unlimited.

The reports of the authorised accountants who are examining the affairs of Overend, Gurney, and Co. far surpass in interest any similar documents published during this panic, and perhaps any similar ones which have ever been published. They reveal an 'interior' such as has seldom been seen, and such as it is painful to have to comment on. Several of the parties concerned have suffered most severe penalties; from being men of great wealth they have become poor; having been men of great Lombard street reputation they have lost it all. It seems hard to speak severely of those who are suffering so much, and we shall only say what is absolutely necessary in describing the bare facts. The subject divides itself into three heads—1st, the state of the old firm of Overend, Gurney, and Co. prior to its conversion into a limited company; next, the management of that company during its ten months of business; lastly, the prospects of its ultimate liquidation; and there is a sad distinctness in what we have to say on each head.

First. The main fact as to the old firm of Overend, Gurney,

and Co. was that it was at the time of its conversion into a limited company *insolvent by at least four millions sterling*. The new company took over the assets of the old firm under a guarantee, and debited to it what was unpaid, and credited to it the proceeds of the partners' private estates, the goodwill of the business, and other assets. It was expected that these various assets would be much more than enough to compensate for any loss, especially as the private property of the partners was known to be immense. But the business of the old firm had been carried on so imprudently that the suspense account to which the 'unpaid' items were carried became a ruinous gulf. The accounts tell us that after carrying to it

	£
Goodwill of business	500,000
Balance to the credit of partners in private ledger at the close of the old firm . .	1,126,000
Amount already realised from partners' private estates	650,000
Ditto *to be* realised from the same source .	1,250,000
Making together	3,526,000
There will still be a deficit of . . .	720,000
Showing that the old firm was insolvent by .	4,246,000

The most monstrous result which we have seen in any comparable balance sheet.

It is difficult to understand how any honest and able men could persuade themselves to sell, and still more strange how any such men could be so blind as to buy, such a business. The directors of the new company, who belonged to the Gurney family or were otherwise partners in the old firm, may be palliated perhaps, if not excused. They were so familiar with their own blunders that they did not realise how great they were. But the new directors—men of ability and reputation in the City—who came fresh to the matter, whose minds were not blinded by a vicious experience, ought at once to have dispelled the mistake. They ought to have thoroughly ascertained how the matter was. It had been known for years that the 'great house' had departed from its legitimate business; that it had wandered into bad transactions; that it had

a ' back shop ' full of queer securities. The first duty of men of business, taking off such a concern, was to investigate this congeries of bad matter, and they ought to have borne in mind the old principle that bad business tends to become worse; that as buyers they were bound to think how what they bought would sell, not in good times only, but also in bad times; that they ought to have calculated on a period of depression, as a contingency in which they should be made safe, even though fortunately it should not happen. The fresh directors evidently did not do this; if they had, if one could think they had seriously attempted it, they could not have given half a million for the goodwill of a firm already insolvent by four millions.

The deceiving consideration seems to have been that the business of the old firm was separable; that its discount business, strictly so called, was good; and that it was only its abnormal and inappropriate business that had led to these losses. The new directors calculated that they could make a fresh start, that they could begin again, that they could pick amongst the affairs of the old firm, that they could keep the good and leave the bad. But there are no such new commencements in real life. Those who take off a concern whose essence is credit, cannot ignore any transactions which tend to diminish that credit. The old firm had engaged in extra bill-broking operations which would compel the Gurney family and others interested in it to sell their private estates; the moment those operations were known, the credit of the old firm was at an end. ' Overends ' were largely trusted, because, in the provinces at least, they had still a great name for pecuniary judgment and wisdom. But when it came out that by their errors and infatuation they had lost several millions, and that they no longer had anything left, their glory must be turned into shame; the source of their gain was gone, and their name became a mark of suspicion, not a reason for confidence.

The history of the new company is just one continued and disastrous illustration of these principles. There seems to have been a run on them for months. Probably their whole existence was of the most painful kind for such a company; their profit, their position, and even their existence was dependent on their credit, and their credit was day by day diminishing.

	£
On July 11, 1865, the old firm had of other people's money	14,400,000
On May 10, 1866, the new company only had	9,800,000
Showing a diminution of . .	4,600,000

or nearly a third. The liquidators say that the lock-up caused by the liquidation of the irregular assets of the old firm was never less than £2,500,000, and at the time the new company closed its doors it was £3,000,000. It is, therefore, fair to say that of the £14,400,000 brought over from the old company to the new £7,000,000, or one-half, was either paid away or gone before the new company closed its doors, or else locked up and inaccessible. Everybody who sees the interior must comprehend well how this happened. The moment the partners in the old firm were announced to be ruined,—and this began to be town-talk from February at least,—the new company was drained, pressed upon, and weakened day by day, while the absorption of means by the bad assets of the old firm rather augmented than diminished as time went on.

We wish we could say with confidence that the management of the new company had been good. It certainly was better than that of the old firm; they evidently did not depart recklessly and wildly from their legitimate business. But the *accounts* certainly do not confirm the wonderful repute of Overend, Gurney, and Co.'s bill discounting. The current bills the new company had discounted were, at the stoppage, in round numbers these:—

	£
Bills left with depositors as security . .	6,285,000
Bills re-discounted	8,266,000
Bills in hand	1,149,000
	15,700,000

The first are said by the accountants to be good, though, from inquiries we have made, we are sure they will not be at all uniformly paid. Of the rediscounted bills we are told that 'a large 'amount will be returned, and in the first instance rank against 'the estate' of the company. The bills in hand are estimated to produce only £1,100,000, being a loss of nearly £50,000 on that one

item, and their realisation even at that sum is spoken of as distant and even problematical. This is not the account of a profitable discount business. A bill-broker cannot afford to make heavy bad debts; he pays high interest for every sixpence left with him, and he cannot safely employ his means except in the best mercantile paper, and on this he cannot obtain a rate out of proportion to that which he gives. His margin is narrow, and one single bad bill absorbs the profit on many good ones. The current bills of Overend and Co. clearly contain many questionable ones, and there are other losses too.

There are

	£	£
Sundry Debtor balances	£461,000	
Estimated to produce	422,000	
Showing a loss of		39,000
Overdue bills	£98,500	
Estimated to produce	89,000	
Showing a loss of		9,500
Loss by bills payable		20,000
		68,500

If bill discounters manage thus, no conceivable means will make their profits great. The new company were not infatuated like the old firm; they adhered, comparatively at least, to their legitimate business; but the irresistible evidence is that they did not manage with caution, skill, or foresight.

Lastly, as to the probable result of the liquidation. Here two facts are evident—1st, that the paid-up capital of the company is all gone. That capital was £1,500,000. Now the company bought an involved business, and the account is

	£
Deficit in the old firm of Overend and Co., after allowing for all receipts from the partners' private estates	720,000
Sum given for that business	500,000
	1,200,000

which is by far the greater part of a million-and-a-half, and the

bad bills we have just been speaking of and the expense of liquidation will well account for all the rest.

Secondly, there must be a considerable call. Independently of other liabilities the company owes to unsecured depositors £9,800,000, and they have no comparable sum of ready money or assets at once available to meet that demand. We think £10 a share or £1,000,000 at least must be called up, and the general opinion of well-informed people is, we learn, the same, though of course the liquidators who see the full interior alone can form a conclusive judgment. How much of this call will be returned to the shareholders we cannot say, but we think they ought to reckon on a loss per share of £20 or £17 10*s*. at least.

As to reviving the concern of Overend, Gurney, and Co., as has been suggested, we cannot imagine a proposal more absurd or desperate. It has been insolvent as a private firm; it has stopped payment as a limited company. The names of its partners were once an assurance of wealth and a guarantee of good management. But that wealth is gone, and that management is now seen to have been very bad. There is no longer any basis for confidence or trust; the name of Gurney was once a charmed name, but no one can hope to conjure with it any more.

Report of the Provisional Liquidators of Overend, Gurney, and Company, Limited.

The Economist, 16th June 1866.

To the Shareholders and Creditors.

In reporting on the position of the affairs of this company, we have thought it desirable to submit the following accounts:—

A balance sheet from the 1st August, 1865, the date of the commencement of the business of the company, to the 10th May, 1866, the date of its suspension.

A profit and loss account for the same period.

An approximate statement of the affairs of the company in liquidation.

A statement, showing the position of the affairs of Messrs. Overend, Gurney and Co. on the 31st July, 1865, the day before the commencement of the limited company.

The balance sheet and profit and loss account are made up from the books, and show the apparent position of the company, and also the supposed result of the nine months' business, but no deduction has been made for rebate, neither has there been any reserve for bad or doubtful debts, or for liabilities in respect of current bills.

These two accounts are rendered solely with the view of affording the shareholders an opportunity of judging as to the profits which might fairly be expected from the business, under circumstances, other than the very exceptional ones, which have led to the collapse of the company.

The approximate statement of the affairs of the company in liquidation, has not been framed without very considerable difficulty, for at the present time, the most carefully considered estimates may prove fallacious. On one side of the account there is the contingent liability, arising from the borrowing on, or the re-discount of bills still current to the amount of upwards of £14,000,000, while on the other side, the probable result of the realisation of assets of the nominal value of £5,000,000 has to be dealt with.

We do not propose at the present moment to attempt to estimate the loss which the company may ultimately sustain by the non-payment in full of the bills held by creditors as securities for loans, or of the bills re-discounted; for we feel that having regard to the large amount of such bills, and to the very exceptional state of commercial affairs, any such estimate could not be relied on, and moreover, might possibly mislead. The bulk of the bills will have matured by the end of the month of August next; and we would suggest, that another statement should then be rendered, by which time the items on both sides of the account will have become more definite.

With respect to the assets on the credit side of the statement, we have to the best of our ability made such an estimate as we think fairly represents their value, at the same time, the peculiar nature of the greater portion, together with the circumstances under which they will have to be realised, precludes the possibility of our stating the actual amount which they will ultimately produce.

With these prefatory observations, we now propose to deal with the various items in the statement, in the order in which they appear.

Liabilities.

Creditors Unsecured. The only remark which seems necessary on this item is, that we are advised, the creditors are entitled to interests on their debts, and by such interest the aggregate of the debts will be increased.

Creditors holding Security. The securities which are held by creditors amount to £6,285,662 13*s.* 1*d.*, and consist of bills which have been discounted by the company, and of Government stocks; for the reasons we have already stated, we have made no estimate of the probable result of their realisation. We believe, however, that the character of the bills is good, but the apparent surplus of £266,827 3*s.* 9*d.* will be reduced by interest, and the loss on any unpaid bills.

Liability on Bills Payable. This liability arises on acceptances of the company, partly in respect of credits granted, and partly against guarantees with security. So far as we can judge, at present, the loss which the company will sustain in respect of this item will not exceed £20,000.

Liability on Bills Re-discounted. We have already stated the reasons which have induced us to refrain from attempting to estimate the loss which the company may ultimately sustain in respect of this liability, deeming it preferable to leave the question entirely open, rather than express an opinion which might be delusive. A large amount of these bills will undoubtedly be returned unpaid, and will, in the first instance, rank against the estate for the full amount.

Assets.

Bills Receivable in Hand. This item, although estimated to realise £1,100,000, will not produce that amount immediately. A considerable proportion of these bills will not be met at maturity, but it is anticipated that the ultimate loss will prove comparatively small.

Sundry Debtor Balances. This item will not be immediately productive to any considerable extent; it consists of debit

balances, which in many cases are only recoverable by the realisation of securities held by the company.

Overdue Bills in Hand. It will be seen that this item is expected to produce £90,000, but some time will necessarily elapse before that sum can be obtained.

Overend, Gurney, and Co. '*Suspense and Guarantee Account*'. On the formation of the limited company, a deed of purchase was entered into between Messrs. Overend, Gurney, and Co. and the company, whereby that firm transferred to the company their assets, and the company adopted (with certain exceptions) their liabilities. Messrs. Overend, Gurney, and Co., at the same time, giving the company their joint and several guarantees against any loss.

Believing that the shareholders will be desirous of having before them some information as to the position of Messrs. Overend, Gurney, and Co., at the time this arrangement was entered into, we have made up from their books, and have appended hereto a statement of the accounts of the firm on July 31, 1865, the day prior to the transfer of the business to the company.

On reference to this statement it will be seen that the total on the credit side of the account then stood at £15,552,003 8*s*. 9*d*., and on the debit side at £14,425,678 0*s*. 8*d*., exclusive of the balance to the credit of the partners in the private ledger amounting to £1,126,325 8*s*. 1*d*. There were, however, further liabilities in respect of bills re-discounted, bills payable, credits granted, and guarantees to the extent of £8,808,699 8*s*. 3*d*. It was assumed that the balance of the private ledger above referred to and the separate estates of the partners, which were then valued at upwards of £2,000,000, would prove more than sufficient to cover any losses then known or which might be developed in the course of the liquidation of the affairs of the firm.

The excepted liabilities above referred to consisted of guarantees which had been given to various parties by Messrs. Overend, Gurney, and Co., and were at the time assumed to be fully covered by securities specially hypothecated against them.

During the progress of the liquidation, from depreciation in values and from other causes, a deficiency has arisen which after the realisation of all the assets, joint as well as separate, will

probably extend to at least seven hundred thousand pounds, at the same time the lock-up involved in the liquidation account has never been less than £2,500,000, and at the date of the suspension of the company reached nearly £3,000,000.

Under the provisions of a deed of arrangement of contemporaneous date with the deed of purchase, an account was opened in the books of the company under the title of 'Suspense and Guarantee Account', in which Messrs. Overend, Gurney, and Co. were debited with the total amounts of all accounts due to them from estates in liquidation, and to this account all bills which had been taken over under the guarantee against loss were, if not paid at maturity, from time to time debited, together with all other payments made on account of the 'liquidation'. To the credit of this account were passed the cash payment in respect of the moiety of the purchase money for the goodwill of the business,—the proceeds of the shares given for the remaining moiety as they were realised,—the value of the premises—the balances then standing to the credit of the partners in the private ledger, and all sums from time to time received under the liquidation.

The deed of arrangement further provided that the balance, if any, which might be standing to the debit of Messrs. Overend, Gurney, and Co., in the 'Suspense and Guarantee Account', on the 31st December, 1868, was then to be paid by them, and for the purpose of securing the due payment of such balance, the joint and several guarantees, before mentioned, were taken by the company.

In carrying out this arrangement provided for by the deed, assets have from time to time been realised, and liabilities have been discharged; but, in many instances, the former could only be realised with time, and not always without difficulty, whereas the latter required prompt payment; and, notwithstanding that about £650,000 has been in the meantime contributed by the partners from their separate estates, in connection with the liquidation, the balance at the debit of the 'Suspense and Guarantee Account', at the date of the suspension of the company, was £2,970,168 7*s.* 10*d.*, the amount which appears in the balance sheet and in the approximate statement of affairs.

A careful investigation has been made of the assets still unrealised, and it is estimated that they may ultimately produce about £1,000,000. The separate estates of the partners remaining to be realised will, it is estimated, produce a further sum of £1,250,000. These two items compose the £2,500,000, which will be found in statement.

Premises, Fittings, and Furniture. These have been taken at the cost to the company, and there can be very little doubt but that the amount will be fully realised.

Surplus of Securities held by Creditors. This amount will be reduced by interest, and also by any unpaid bills.

Goodwill of Business. We have not attempted to put a value on this item, it is the property of the shareholders, and is in their hands, to deal with as they may think fit.

We have endeavoured, in the shortest time possible, to present a statement to the shareholders and creditors, which should contain a broad outline of the general position of the affairs of the company. The causes which have led to this position will be so readily seen, that we abstain from making any comment or expressing any opinion on them.

In conclusion, we feel bound to point out that the liquidation must of necessity be a work of time, whether the winding-up be voluntary, under the supervision of the court, or under a compulsory order. In the present condition of commercial affairs, great uncertainty will exist until all the bills have matured. A partial realisation of the assets will no doubt be practicable at an early period, but with respect to a considerable portion any undue pressure would, if attempted, in all probability lead to losses which might otherwise be avoided.

We shall be prepared, at the meeting on the 11th instant, to state the amount of cash then in hand, the amount by which the liabilities will have then been reduced, and the amount of bills returned unpaid subsequent to the suspension of the Company.

We are, your obedient servants,

W. TURQUAND, } Provisional
R. P. HARDING. } Official Liquidators.

London, 6th June 1866.

THE BARING CRISIS, 1890

COMMENTS FROM 'THE TIMES'

The Times, 14th November 1890.

The Money Market.

There has been a very good demand for discount at the Bank of England, but it was not quite so heavy as yesterday. There have also been large advances against securities at 7 per cent. In the open market a good business has been transacted at yesterday's rates for short loans, and the quotation for the discount of three months' bank bills is substantially unaltered, though business was again said to have been done at less than $5\frac{3}{4}$ per cent. A very uneasy feeling has prevailed, and various rumours, of which no confirmation could be obtained, were current, especially early in the day. Towards the close the alarm perceptibly diminished owing to the Stock Exchange Settlement having been got over without any failures being announced or any cheques returned, and also to a report as to a contemplated bank amalgamation being circulated, which has since turned out to be untrue, as we explain below. Some small amounts of gold are now arriving here in consequence of the firmness of the Continental exchanges, in addition to the large sums which the Bank of England has arranged for. As some doubts are still being expressed as to the absolute certainty that the gold in question will come, we repeat that the purchase of at least £2,000,000, or, to be precise, 50,000,000 fr. of gold has been arranged with the Bank of France, and £1,500,000 has been obtained in Russia. The £600,000 which is coming from Brazil, and may, we hear, be followed by more, is under the control of banks and firms outside the Bank of England. Our Paris Correspondent, telegraphing this evening, reports that the sum to be advanced is 75,000,000 fr., and adds that the rate to be charged for it is 3 per cent., and that the period is for three months. That version of the matter is not in full accord with our own information, but whatever the exact details may be, it is satisfactory to know that strong measures have been taken to provide for any unusual pressure of whatever

kind on the Bank's resources. It is possible that some gold may be wanted for shipment to New York, as the New York exchange has for some days been very low, but several good authorities are of opinion that no fear need be entertained on this score. In any case the Bank deserves the thanks of the City for acting as it has done, in existing circumstances. We may add that the Bank is placing none of the usual restrictions in the way of those who make reasonable demands on it for accommodation. Money can be borrowed by proper applicants for one day or any period which may be convenient up to ten days. On 'Change bills were in fair demand, with only a small supply, but rates were maintained at last Tuesday's level. . . .

The Times, 15th November 1890.

LEADING ARTICLE

Such a week of sensational horrors and heart-rending anxieties as that which is closing to-day can hardly be within the remembrance of the present generation of Englishmen. A succession of railway accidents, involving very serious loss of life and casting grave doubts on the elementary securities of the system which has become a part of our daily existence, have paled beside the disastrous wreck of one of the newest vessels in the British Navy with a full complement of men. Many minds have been still more moved by the moral tragedy of the squalid squabble which has cast a terrible shadow over the glories of the Emin Pasha Relief Expedition, the shocking charges and counter-charges of cruelty and calumny that darken names, both of the dead and of the living, which the nation has hitherto delighted to honour. This morning, too, as this week of excitement and tension draws to its end, a case opens in the Divorce Court, unique in the recent history of this country, inasmuch as the issue to be determined touches the personal reputation and moral character of the leader of a powerful Parliamentary party, the co-equal Chief of the Opposition. Behind all these causes of agitation there has been an obscure background of gnawing care and smothered alarm among men of business. The City has passed through a crisis verging upon panic such as has not been known since the awful Black Friday that

followed the suspension of Overend, Gurney, and Co., nearly a quarter of a century ago. Happily men have kept their heads better than they have done on former occasions, and though the strain was tremendous, though the fall in securities was heavy, and though the most alarming rumours were flying wildly about, we rejoice to be able to announce this morning that the worst is over. The Bank of England has added to its historic services to the State and to the commercial community by prompt and courageous action which has averted a lamentable catastrophe. Thanks are due to the present energetic administration of the Bank, not only for providing for a vast reinforcement of the stock of gold to meet the possibility of the exceptional demands that arise out of panic, but for stepping out of the ordinary routine of business to prevent the downfall of one of the greatest and most respected of English financial houses, which has for some days been in peril, and which, if it had fallen, would have brought down with it too probably in widespread ruin a large number of smaller but important firms.

While we have been cautious to abstain from saying anything that could precipitate a panic and add to difficulties that were already more than sufficiently grave, careful readers of our Money Market articles must have noted the warnings we published from day to day. The necessity for reticence is now at an end. The great financial house to which we have referred had gone far beyond the bounds of prudence in respect of those commitments on account of public loans and private enterprises in the Argentine and Uruguayan Republics to the excess of which we have again and again drawn attention. Happily, the assistance of the Bank was sought in time; and, as it was ascertained after thorough inquiry that the position was really sound, though it could not have been maintained by any less effective intervention, the request was met in such a manner as to remove the risk of any catastrophe. The resources of the Bank, supported in its public-spirited measures by the leading firms in the City, are ample for the purpose. Men of business can once more breathe freely to-day. Many of them will only learn the extent and magnitude of the peril that hung over them when they hear that it has been effectively and energetically conjured. The strain, the depression,

the prevailing gloom of the past few days may be expected to abate, though the ground-swell after the tempest may make itself felt for some time longer. A great part of the fall in the value of securities, especially in Consols and other high-priced investment stocks, has, doubtless, been due to the precautionary measures adopted by banking establishments in order to be prepared for eventualities. In any case the fall in Consols is serious. The $2\frac{3}{4}$ per cent. stock touched the lowest point yesterday to which it has gone since its first issue by Mr. Goschen. English railways have not fallen heavily, taking into account the agitation of the market and the subtle influences of sympathy. The depression in American railway stocks was very great, but was produced rather by the troubles in Wall-street than by anything that happened here. For reasons we have already hinted at, Argentine and Uruguayan securities suffered most, the decline in the 5 per cent. issues, between the 6th inst. and yesterday, being from 6 to 7.

The Bank of England, as has been stated in our Money Article, has made ample provision for supplies of gold, and the Regents of the Bank of France have been ready to lend on moderate terms to an extent quite sufficient to meet any probable pressure. One million of French gold went into the Bank yesterday, and the same sum is expected to-day. A large amount of Russian gold will come in early next week. At the same time, the rise in the Paris exchange will, in the absence of further artificial obstacles, of which there need probably be no fear at present, bring us quite as much of the precious metal as is at all likely to be needed. The Bank is using a wise discretion in dispensing with some of the usual conditions insisted upon in meeting demands for accommodation. The object is to avert anything like a crisis, and, though the immediate danger is past, there are contingencies that have still to be guarded against. The comments of the French Press on the action of the Bank of France in making an advance of gold to the Bank of England are based on a certain misapprehension of the facts. The security offered for the advance is, of course, the highest in the world, and the 3 per cent. interest to be paid cannot properly be compared with the rate payable for advances in the open market. Moreover, the French have to guard their own interests, and these are largely involved in the

maintenance of the price of the chief international stocks. A financial crisis in London would cause a fall all round, and deluge the French market with securities of all sorts, sold at panic prices.

The Times, 18th November 1890.

The Money Market

It was reported on the Stock Exchange late to-day (17th) that Messrs. N.M. Rothschild and Sons would take over the Argentine agencies of Messrs. Baring Brothers, but we are informed that there is no foundation for this statement. It has been stated that the initial cause of the difficulties of the great house which has so narrowly escaped complete destruction was the withdrawal by the Russian Government of their deposits. We have the best authority for stating that such is not the fact. It was on a review of their whole position that the firm decided to call in outside aid, and their having done so is to their credit, as the temptation to go on and trust to the chapter of accidents must have been considerable. The deposits of the Russian Government are still in the custody of the firm, and are of course protected, like its other liabilities, by those who have assumed charge of its affairs. The total amount of those deposits is £2,440,000. Of this total, notice of withdrawal had been given, for no specified reason, for £1,500,000 in three instalments, the first to mature on the 15th of December next and the second in January. We understand that the guarantee fund in connection with the great house's affairs had reached over £12,000,000 this afternoon, without the amounts which, it is expected, will be promised by the banks in the north of England and the Scotch banks. While the feeling of extreme alarm caused by the disclosures of the last few days is certainly subsiding, there is a considerable undercurrent of anxiety, accompanied by a very evident effort in many quarters, especially among the banks, to strengthen themselves against contingencies. This is very natural and justifiable, as a cautious attitude will be necessary for some time to come, but, whatever further difficulties of a general nature may have to be encountered, they will only be aggravated and increased by country bankers, who are in no danger, calling in their balances employed in London at the same time that the

London banks are taking similar steps to strengthen themselves. At the meeting of the representatives of joint-stock banks, held at the Bank of England last week, it was stated to them, we understand, by the Governor that assistance would be afforded to those who could justifiably claim it in case of need, and with such an assurance they ought, and no doubt will, on their part, do their utmost to give all reasonable facilities to their customers. No person who offers reasonable security ought to be refused a liberal measure of accommodation. There has been a heavy demand for discount at the Bank to-day, and it has been freely responded to, 7 per cent. being charged for three months' bank paper, which cannot be considered an unduly high rate under the circumstances. Some anxiety is felt regarding the liability of the issuing house on the contract to raise the money for the Buenos Ayres Water Supply and Drainage Works. We believe their share in the syndicate was £1,400,000, but that their responsibility extends to the other members of the syndicate in the event of their failing to meet their engagements. There should, however, be no great difficulty in arranging this matter, if it has not already been arranged. Outside the Bank of England discount and loan business is almost at a standstill. . . .

The Times, 19th November 1890.

THE MONEY MARKET

. . . The demand for money at the Bank of England has been upon a large scale, but it was not so heavy as yesterday. Bills were extensively offered, and in some cases 8 per cent. was charged, but this rate was demanded with the object of preventing foreign holders of Baring Brothers' acceptances from sending them in for discount in large amounts. The Bank authorities have no objection to take them in such moderate amounts as they may find convenient, but they wish it to be known that, as these acceptances are already provided for and will all be met at maturity, they desire that holders should, in the general interest, exercise some forbearance and not throw unnecessary work on the Bank at a time like the present. The pressure of a high rate of interest has caused two small firms of bill-brokers to succumb, the fall of one

of them, we understand, being partly due to speculation in Rupee Paper. The demand for money in the open market has been quiet to-day, at rates very little changed from those of yesterday. The decline in the Paris cheque rate on London has, for the moment, made the importation of gold from France unprofitable, but that is of no great consequence, in view of the large amounts already received and on the way, and from the point of view of the Stock Exchange the fall is a good thing, inasmuch as it permits purchases of stock for French account to be resumed, whereas the other day, owing to the sharp rise to 25f. 45c., operations of that character were rendered temporarily impracticable. On 'Change all bills were offered at rates much more favourable to this country than those of Thursday, the French and Dutch exchanges reaching gold point, while roubles declined sensibly in value. . . .

The Times, 24th November 1890.

THE MONEY MARKET

. . . We understand it is thought probable in well-informed quarters that the circumstances under which the authorities of the Bank of England had recently to replenish their stock of gold by obtaining supplies from abroad will result in the appointment of a Royal Commission to inquire into the whole question of the working of the Bank Act of 1844. It has been known for some time past that the present Chancellor of the Exchequer contemplates making changes in the law affecting bank-note issues, and it is not unlikely that Mr. Goschen may think the time has arrived to rearrange the whole basis upon which the business of the Bank of England is carried on. Those who have more particularly studied such matters have, we believe, without exception been of opinion that the debt due by the Government to the Bank should be repaid. Had it full command of its own capital the Bank would be in a position to hold a large number of bills of exchange, as the Bank of France does, and could by that means exercise a more effectual command over the discount market, and consequently over the imports and exports of gold. Too large a proportion of the Bank's assets is in the form of fixed investments. If it transacted a much larger discount business it could afford to pay for

a larger idle bullion reserve than at present. For many years past the gold reserve has been too small, as we have constantly pointed out. In quiet times, with the Bank rate at 3 per cent., and even 2 per cent., for months together, no harm follows. But all agree that the richest capital in the world ought to be in a position to avoid in future having to despatch a trusty messenger to the Bank of France at a moment's notice to communicate to them the grave fact that the Bank of England must have so much gold at once at any cost, which is what took place. . . .

The Times, 25th November 1890.

THE MONEY MARKET

. . . Now that such a disaster as the failure of one of the greatest and most widely-known firms in this country has been happily averted, it is worth while to examine how it was that on this occasion there has been no crash such as followed the fall of Overend, Gurney, and Co. It has been said by some competent observers that the old kind of panic such as that which occurred in 1866 can no longer happen. We think that this idea is erroneous, and that it will certainly lead to mischief if it comes to be widely held, but those who hold the view in question are entitled to make the most of the fact that in the present case the solvent members of our mercantile community were able to hold out their hands, so to speak, when one of the biggest of the fraternity fell, and, by checking the impetus at its outset, to prevent the threatened catastrophe. It has not, so far as we know, been stated before, but we believe it nevertheless to be a fact, that the liabilities of Baring Brothers, when they began in hot haste to shorten sail, reached a total of about £34,000,000, and that before they were recommended by a certain bank in Lombard-street to apply to the Bank of England, when seeking a loan upon a large amount of Guinness debentures, they had already realized some £4,000,000 worth of securities. It was in fact this process of selling securities in such large ' lines ' that brought it home to one house after another to whom the proposals were made that there must be something wrong at No. 8, Bishopsgate-street. Within a week, however, a firm, whose business ramifications

existed in every quarter of the globe, with such gigantic liabilities, was not only saved from the hopeless collapse, with all its terrible consequences to others, which seemed inevitable, but everything was so arranged that the liabilities will run off smoothly and are at the same time amply guaranteed. The chief reason why such a remarkable display of financial strength was made was because it was recognized to be necessary. No one dared face the consequences of leaving Messrs. Baring to their fate. What happened in their case must not be taken as a precedent applying to smaller firms or institutions. Neither would it apply to an equally large firm if its liabilities were the result of something more than a ' lock up '. It must be remembered that Messrs. Baring possessed a large amount of really valuable assets, though many of them were of practically no value for the moment, as they were useless as security for loans, being at present unmarketable. If the mass of their securities had not been of a kind likely to become profit-earning in time it would have been madness to try and bolster them up, for that would only have widened the area of ruin. We are disposed to think, too, that the possibility of executing the rather daring scheme which has been successfully carried out depended very largely on the personal qualities of a small number of men of unusual capacity, who were, fortunately, in positions of power at the moment of peril. . . .

COMMENTS FROM ' THE ECONOMIST '

The Economist, 22nd November 1890 (p. 1465).

The Liquidation of the Barings

It is impossible to withhold sympathy from the victims of misfortune, even when they have brought upon themselves the ills which befall them. Nevertheless, we feel unable to join unreservedly in the chorus of condolence which has been raised this week over the collapse of Messrs. Baring Brothers. It is, indeed, a pity that such a great house should have been brought low, but it would have been still more to be regretted if the punishment for the errors that have been committed should have fallen, not upon those responsible for them, but upon innocent parties. Had Messrs. Baring Brothers been able to shift the

burden of their South American obligations upon the investing public they would now have been standing erect; and without indulging in any recriminations, it must be admitted that they did not neglect to use all the means in their power to rid themselves in this way of their liabilities. The subject is not a pleasant one to pursue in present circumstances, and we would rather not speak of the market devices that were employed to attract investors. Our opinion as to these was expressed freely and strongly enough at the time, and no good purpose is to be served by going back upon them. We cannot, however, profess to feel sorry that the efforts to induce the investing public to come to the relief of Barings have proved ineffectual, even although the result has been to drive that firm into compulsory liquidation. We do not seek to blame Messrs. Baring because they were not satisfied with the safe and magnificent profits which their splendid merchant banking business yielded. It is now seen that they acted very unwisely, but temptation to add riches to riches is hard to resist, and for whatever errors of judgment they may have committed they are now being made to suffer. In no unkindly spirit, however, we feel bound to say that it is better that things should have turned out as they have done, than that the Barings should have succeeded in relieving themselves from the evil consequences of their own rashness in the pursuit of wealth, at the expense of confiding investors.

Those who remember the panic that followed the failure of Overend, Gurney, and Co., in 1866, cannot but have been struck by the minor intensity of the crisis through which we have been passing since Saturday, notwithstanding the fact that it is a much bigger house that has come to grief. The week has been one of intense anxiety and acute apprehension, but the alarm has never really deepened into panic, the proof being that there has been no internal drain upon the Bank of England, which is the unfailing concomitant of a true panic. For this difference in the character of the two crises one reason is, that the difficulties of the Barings are altogether different in kind from those to which the Overends were forced to succumb. The business of the Overends was rotten to the core, and the firm had been hopelessly insolvent for years before they closed their doors. The mercantile business of

the Barings, on the other hand, is thoroughly sound, and there is no question whatever as to the ultimate solvency of the firm. Their assets are estimated to exceed their liabilities by several millions, and their embarrassments have arisen simply from the fact that they have not taken proper care to keep those assets in a sufficiently liquid form. They have locked up so much money in South American securities, and come under such serious obligations in respect to these, that they have not funds enough to meet current liabilities, and have consequently been forced to seek outside assistance.

Further, instead of hiding their difficulties until a crash could not be averted, as did Overend, Gurney, and Co., the Barings made a timely disclosure of the state of their affairs, and placing their position before the Bank of England, enabled the directors of that institution to take measures to ward off the most serious consequences of their downfall. Those behind the scenes, although their tongues were tied, knew quite well what dictated the purchase of gold from the Russian Government and the loan from the Bank of France. It is sufficient now to say that by these measures the Bank of England was put in such a position as to calm the fear from which all panics originate—the fear, namely, that the cash reserve of the country is insufficient to maintain the fabric of credit that has been reared upon it. The knowledge that gold would be available if required went a long way to inspire confidence, which was further increased by the action of the banks and finance houses on jointly guaranteeing the due payment of the liabilities which the Messrs. Baring had incurred up to the date of their virtual liquidation. That guarantee is, it appears to us, too wide in its terms, but that it was the main instrument in averting a panic there can be no question.

Our reasons for thinking the guarantee rather too far-reaching. In guaranteeing the mercantile obligations of Messrs. Baring, the banks are simply acting for their own protection. They know quite well that if the bills drawn upon Messrs. Baring were dishonoured, perfectly solvent trading firms might be forced into liquidation, with serious consequences to the trade of the country and to the banks themselves. That is a danger against which it was right to guard, and it is fortunate that in the present

Governor of the Bank of England we have a man of exceptional ability, who in these difficult times has shown that he possesses a rare combination of tact, decision, and fertility of resource. It is with him that the idea of combined action on the part of the banks is understood to have originated, and as a means of tiding over a temporary derangement of credit, the device is most effective and beneficial. But from the terms of the guarantee it would almost seem as if something more than this were intended to be done. From the fact that it is to extend over a period of three years, it would appear as if there were some intention of nursing the assets of Messrs. Baring, incurring obligations not only in regard to their mercantile operations, which are stated to be perfectly sound, but also to their financial transactions with the Argentine and other South American Governments, which are of a doubtful character. And if anything of this kind is intended, the banks are going beyond their province. It would, no doubt, be very gratifying to big loan and finance houses to have it laid down that if they only over-commit themselves to the extent of a sufficient number of millions, the combined resources of the Bank of England and the leading joint stock banks throughout the country will be used to tide them over their difficulties with as little loss as possible, whereas people with smaller commitments would be left to shift for themselves. And it would doubtless be eminently consoling to impecunious foreign Governments, if they could feel assured that if the financiers who have been ministering too freely to their requirements should become unable to carry the burden of the liabilities they have undertaken, the whole banking strength of this country would rush to their rescue. But it certainly would not be to the public advantage if any countenance were given to such principles, and we hope that nothing of the kind is contemplated by the guarantors of Barings. We do not wish to press the point at present in view of the intended reconstruction of the firm, as to which an official announcement will be found in another column. But it is one which bank shareholders may find it necessary to look into, and in regard to which the directors would do well to be much more explicit than they have been up till now.

During the past four days there has been a distinct revival of

confidence, and there is reason to hope that the worst of the crisis is over. It would be a mistake, however, to assume that all difficulties have been surmounted. We deal elsewhere with the condition of trade and of the stock markets. Here it is sufficient to say that the lock-up of capital which has brought Messrs. Baring Brothers to grief is only one instance on a large scale of what has been going on very widely in other directions. Finance institutions, underwriters, and others have become loaded up with large masses of securities, which they have been unable to foist upon the public, and which they find it more and more difficult to carry, as calls upon them fall due, and as, owing to the decline in prices, fresh margins have to be provided. That the burden will prove too heavy for a number of these holders is certain, and a dragging liquidation of such recklessly undertaken engagements is what we must look for. But after all, it is only a small portion of the country's resources that is involved in these speculations, and it is better that the losses should fall upon those who have indulged in the gamble, than that investors should have been beguiled into parting with their money. The great mass of the country's business is comparatively little affected by the Stock Exchange upheaval, and although the crisis is unsettling while it lasts, and must for a time cause a certain restriction of trade, its ultimate result will be rather a partial redistribution than a reduction of national wealth.

The Economist, 22nd November 1890, p. 1482.

Discount and Loan Market

Subjoined are the exact terms of the guarantee that has been signed by leading firms and banks in connection with the affairs of Messrs. Baring Brothers and Co.:

'Bank of England, November, 1890.

In consideration of advances which the Bank of England have agreed to make to Messrs. Baring Brothers and Co. to enable them to discharge at maturity their liabilities existing on the night of the 15th November, 1890, or arising out of business initiated on or prior to the 15th November, 1890, we, the undersigned, hereby agree, each individual, firm, or company, for himself or themselves alone, and to the amount only set opposite

to his or their names respectively, to make good to the Bank of England any loss which may appear whenever the Bank of England shall determine that the final liquidation of the liabilities of Messrs. Baring Brothers and Co. has been completed, so far as in the opinion of the Governors is practicable. All the guarantors shall contribute rateably, and no one individual, firm, or company shall be called on for his or their contribution without the like call being made on the others. The maximum period over which the liquidation may extend is three years, commencing November 15th, 1890.'

The liabilities of the firm have been estimated at about £21,000,000, of which £15,000,000 are said to be in the form of acceptances, and £4,000,000 belonging to outside depositors. The estate, including the private property of the members of the firm, is believed to show a surplus of about £3,800,000.

We are officially informed that arrangements were concluded this afternoon for the continuance of the firm. A limited liability company is, it is stated, to be at once registered—probably to-day (Saturday)—with a subscribed and fully-paid-up capital of upwards of a million sterling, provided almost entirely by the family and private friends. The new company will be presided over by Mr. Thomas Charles Baring, M.P., who retired from the old firm at the end of 1888, and who not only subscribes a material part of the new capital, but places all his fortune to the credit of the new firm. The other directors will consist of the Hon. Francis Baring, Mr. Robert Kirkman Hodgson, and the Hon. John Baring, at present partners in the old firm. The liquidation of the old firm will be conducted by Lord Revelstoke, Mr. James Stewart Hodgson, Mr. Henry Bingham Mildmay, and Mr. A. C. Norman, who are the remaining partners. It is intended to reserve to the old firm the right to pay off the shareholders in the company on payment of a substantial bonus yet to be decided upon.

The Economist, 29th November 1890, p. 1507.

The Reconstruction of Barings

The new firm of Baring Brothers and Company (Limited) was registered as a joint stock company on the 25th instant. The share capital is £1,000,000 in 2,000 shares of £500 each, the first

subscribers being T. C. Baring (400 shares), Lord Hillingdon (100 shares), B. W. Currie (100 shares), W. B. Beaumont, M.P. (100 shares), Samuel G. Smith (40 shares), E. A. Hambro (40 shares), and F. C. Le Marchant (20 shares). The first directors are Thomas Charles Baring, M.P., Hon. Francis Baring, R. K. Hodgson, and the Hon. John Baring, who will remain in office until the general meeting in March, 1893. It is provided that there shall not be fewer than three nor more than nine directors, their remuneration being £500 per annum each, or such other sum as shall be voted to them by the shareholders. The objects for which the company is established are stated to be to acquire and carry on the business of bankers, merchants, and financial agents, now carried on under the style of Baring Brothers and Co., at 8 Bishopsgate street, in the City of London, and to undertake all the contracts and liabilities of the said Baring Brothers and Co. in relation to the said business. According to the articles of association, the company will, at any time previous to December 31, 1895, on receiving six months' notice in writing from the transferors or the survivors of them, retransfer to them, or as they may direct, the business, on payment of a sum of money equal to 120 per cent. of the paid-up capital of the company for the time being, and the company shall upon such re-transfer be wound up. Or, if the transferors shall so elect, the company will, instead of re-transferring the business as aforesaid, convert the then existing share capital, which may be held by the shareholders—other than the transferors—into 6 per cent. preference shares at the rate of £120 for every £100 of such share capital, and will issue to the transferors deferred shares to the amount which they may then hold in the then existing share capital, and to the amount of any additional capital which they may then, or at any time thereafter, bring in, provided always that the obligations by this clause imposed on the company shall not be binding on the company until all liabilities of the transferors as existing on the 15th November, 1890, have been discharged. The transfer does not include any property or assets of any description, whether belonging to the firm or to the partners individually, all such property having been transferred or hypothecated to the Bank of England. In addition to subscribing a portion of the

capital of the company, Mr. T. C. Baring by a separate agreement accepts unlimited liability for its debts.

THE AMERICAN CRISIS OF 1907

COMMENTS FROM 'THE ECONOMIST'

The Economist, 19th October 1907.

The Money Market

It may be recollected that on October 19th of last year (a Friday) the Bank rate was raised from 5 to 6 per cent., the reserve having been reduced to £18,861,000, in consequence of the extraordinary drain of gold to the United States. With a $4\frac{1}{2}$ per cent. rate this week the Bank return showed a reserve of £23,836,000, so that the situation remains very much better than last autumn. It is probable, though not certain, that half-a-million will be withdrawn for Egypt to-day. But, even so, the apprehension of a 5 per cent. rate need not be realised for some time, provided that no unforeseen disturbance of credit occurs. It must be confessed that the failures in Hamburg and New York are somewhat ominous. Of the situation in Amsterdam an interesting account from a well-informed correspondent on the spot will be found in another column. So far as can be judged, London is wonderfully sound, but our money market is, of course, extremely sensitive, and cannot be indifferent and unmoved if weaknesses that have been developing for some time should come to the surface in other centres during the next few weeks. Some relief was felt yesterday afternoon, when it turned out that the Bank of Germany had not raised its rate; for the position in Berlin has long been regarded with a certain amount of distrust and anxiety. The action of the Bank of England in taking surplus funds off the market is approved, but money is still fairly plentiful at 3 per cent. The effect of this policy on discounts, however, has been marked; for on Thursday and Friday the rate for three months' bills had risen to $4\frac{3}{8}$ per cent., which is nearly up to Bank rate. We should expect an upward tendency in the short loan market during the coming week. . . .

The Economist, 26th October 1907.

The Money Market

The collapse of credit in New York, so long apprehended, has at last come to pass. So far as can be gathered from the few in the City who know how to read the telegrams and have private advices to guide them, it would appear that the position there is in danger of being undermined by a steady stream of withdrawals on the part of depositors from banks, as well as from trust companies. Both classes of institution have, therefore, been forced to combine for mutual protection, and the question is, whether anything they can do will have the desired effect of restoring public confidence. The real weakness of New York is, of course, the want of a great central bank, free from the possibility of interested manipulation, in which absolute trust could be reposed. The wonderful buoyancy and confidence that prevail here are a testimony not only to the intrinsic soundness of our trade and commerce, but also to our banking and currency system, and to the complete confidence that is felt in the Bank of England. A particularly ominous symptom about the run on the Knickerbocker Trust Company and other institutions in New York is that those who withdraw the deposits frequently do not re-deposit their money in another bank, but convey it home, and hide it away in cellars, or entrust it to safe deposit companies. The result is that the money is actually withdrawn from circulation, and cannot serve to support credit just when that support is most needed. Now, if there were a run upon an English bank, the money withdrawn would immediately be deposited in some other bank, or (supposing a very great anxiety to have invaded the public mind) in the Bank of England itself. The jealousies of the American bankers, and the feud between the banks and the trust companies, have prevented the establishment of a central institution, while political considerations have stood in the way of a proper currency law. It is true New York has one advantage over Berlin—another centre of uneasiness—the enjoyment of a free market for gold, but it is very doubtful in the present emergency whether imports of gold, even if there is the money to buy them, would have any effect upon the public mind in

America; and if they had no effect upon the public mind, they would serve no purpose except to force up the rate of the Bank of England. The course of the discount market has almost of necessity been upwards during the week, though there was a slight slackening on Thursday, when the favourable character of the Bank return became known. The decision of the directors not to raise the rate was also regarded as a good sign, but when the magnitude of the disturbance in New York began to be appreciated bankers refused to take bills, and there was a rush yesterday to Threadneedle Street. Obviously, under these circumstances, the Bank rate cannot long remain where it is unless the conditions in New York ameliorate with almost lightning rapidity. The City is wonderfully composed and collected. It recognises the gravity of events, but is proudly conscious of its own strength, though, of course, the concussions in New York and elsewhere are bound to have reverberations in the banking metropolis of the world. If it were not so this would not be the metropolis. . . .

The Economist, 26th October 1907.

Discount and Loan Market

The Bank has apparently returned the whole or a considerable part of the money taken off the market last week, and as the banks were not anxious for discount business, the supply of loanable capital at the beginning of the week was ample. Day-to-day loans were quoted, for the most part, at $2\frac{3}{8}$ to 3 per cent., but better terms have been secured in the last three days, the rate being 3 to $3\frac{1}{2}$ per cent. Seven-day borrowing has been conducted throughout on the basis of 3 to $3\frac{1}{4}$ per cent. The American crisis has naturally induced a degree of caution in the discount market, but there is no sign at present of any direct demand being made upon our bullion reserves, and a degree of relief was experienced on Thursday, when the directors of the Bank of England decided to make no change in the official discount rate. Outside rates, which had been hardening, eased off slightly on Thursday, but are stiff again to-day, the rate for best three months' bills being $4\frac{5}{8}$ per cent. The strength of the Bank is well maintained, the Return showing that, in spite of a withdrawal of £242,000 for abroad, the stock

of gold is £96,876 higher than last week, at £34,773,314. There was, therefore, a contraction of about £339,000 in the home circulation of coin. The note circulation also showed a reduction of £84,795, and the reserve was increased by £181,671, to a total of £24,018,264. Owing to a large increase in deposits the proportion of reserve to liabilities has fallen $2\frac{1}{8}$, to $47\frac{1}{4}$ per cent. The Public and Private Deposits show increases of £1,606,795 and £1,014,833 respectively, and the Other Securities, owing to repayments by the Bank to the market, have risen £2,451,814. . . .

The Economist, 2nd November 1907.

The Money Market

During the whole of this week the City has been watching anxiously the development of the monetary crisis in the States, and as the future of our money market depends for the moment upon the magnitude of the New York demand for gold, which again is dependent partly upon the severity of the cash and credit famine, partly upon the capacity of the American banks to import the metal, we thought it best to obtain from a New York correspondent a careful analysis of the actual position on the other side. . . .

Read in the light of this telegram and of the information which has been pouring over the wires, we should be inclined to think that the banking panic is leaving New York and spreading over the United States, that it will spend itself after destroying many unsound institutions, but that a long and miserable period, marked by general distrust, unwillingness to lend, inability to borrow, and a scarcity of money often approaching famine, is now before the people of the United States. The financial crisis is merging in an economic crisis; but in the effort to retrieve the situation very large quantities of gold are almost certain to be imported. No action on the part of the Directors of the Bank of England will be able to prevent the reserve being further depleted. In such a panic the reserve is bound to go down; otherwise we should not have that free market for gold which is the foundation of our national supremacy in international trade and finance. A very unpleasant incident in the City, due to the wild speculation of the partner in a flourishing firm, has caused

a sudden rise in the money rates, withdrawing for a time from the short loan market a sum estimated at 5 millions. The action of the Directors of the Bank on Thursday in raising the rate to $5\frac{1}{2}$ per cent. was expected, and had they raised it to 6 per cent. we should have thought it not unwise. On Friday there was a further withdrawal of gold, and so large a business was done at the Bank that we should quite expect a further rise in the rate before next Thursday. Anything, of course, is preferable to the German system of pretending to have a free market and yet of refusing merchants permission to withdraw gold when they need it—a cruel tax upon merchants with a foreign trade, creating also dangerously artificial conditions. We are not very hopeful that much assistance will be rendered by the Bank of France—at any rate, it would be unwise for bankers to make it part of their calculations. The situation, as we read it, is disagreeable enough. But the squeeze here should only be temporary if the City confronts its difficulties calmly and prudently. Our banking system is so much sounder, and those who control it command and deserve so much more confidence, than is the case in less favoured countries, that we may hope to assist others generously without becoming involved in their troubles. It must be remembered that a large stock of gold is only required when the abuse of credit has destroyed confidence. While credit and confidence exist unimpaired we need not be too anxious about our reserves. If credit and confidence disappear as they have done in America, there is no possibility of obtaining a sufficiency of gold. The cash famine in America will have to continue till confidence returns, and for that return we shall all watch with great anxiety.

The Economist, 2nd November 1907.

Discount and Loan Market

The money market was upset at the beginning of the week by heavy gold demands from the United States, and the Bank, though not officially raising its rate of discount, took steps to protect the reserve by refusing bills at under 5 or 6 per cent., and doing no business in any but short-dated paper. Outside rates ran up with great rapidity, and it seemed likely that the

official minimum would also be raised before the usual day. This necessity, however, was obviated, and it was not until Thursday that the Bank declared a rate of 5½ per cent. It is still doing a large business in discounts, owing to the unsettled conditions of the market. Outside rates are well above the Bank's minimum. The Bank return of Thursday showed that £2,761,000 was taken for abroad, and approximately £283,000 in coin and £141,000 in notes for home circulation. The reserve was consequently decreased by £3,184,662, standing at £20,833,602, which is more than £2,500,000 higher than at this time last year. Other Securities are larger than last week by £5,055,581, owing to the big discount business done by the Bank, and Other Deposits have risen by £1,051,933. The total stock of coin and bullion on Wednesday was £31,729,252.

The Economist, 9th November 1907.

Discount and Loan Market

The entire monetary situation has again been dominated solely by the crisis in the United States, the withdrawals of deposits from the banks and trust companies, and the hoarding of the currency so obtained creating an almost frantic demand for gold from wheresoever it can be obtained. In consequence of the withdrawals the Bank of England took the extraordinary step of advancing its rate on Monday, from 5½ to 6 per cent., and after that a further rise to 7 per cent. on Thursday came as no surprise. All the principal European banks have followed suit, the Bank of France, the Imperial Bank of Germany, the Bank of Italy, and the National Bank of Belgium all having advanced their rates. How long the pinch is going to last it is impossible to say, the possibility of our Bank rate going to 8 or 9 per cent. being mooted. Market rates have followed that of the Bank, the rate for best three months' bills advancing from 5⅝ per cent. on Monday to 6¾ per cent. to-day. There is, of course, much uncertainty, and supplies of money are irregular, so that rates for loans vary a good deal. Day-to-day borrowing ranges from 4 to 5½ per cent., and loans for a week are quoted about 5 per cent. The Bank's stock of gold at £28,725,225, shows a reduction of £3,004,027. The amount

withdrawn for export was £2,120,000, and there was consequently an expansion of about £884,000 in the home circulation of coin. The note circulation also increased by £134,780, the reduction of the reserve thus amounting to £3,138,807. It now amounts to £17,694,795, and the proportion of reserve to liabilities is $4\frac{5}{8}$ lower than last week at $35\frac{1}{4}$ per cent. The Public and Private Deposits have fallen £490,331 and £1,412,913 respectively. A good deal of the discount business has gone to the Bank, but, on the other hand, a considerable offset to the sums advanced was provided by the bills maturing on Monday. The Other Securities show the comparatively small increase of £1,259,821. . . .

The Economist, 16th November 1907.

THE MONEY MARKET

The grave interpretation placed by City opinion upon the collapse of credit and the disappearance of cash in the United States is seen when we reflect that more disquiet than surprise would have been felt had the directors of the Bank of England, at their court on Thursday, decided to raise the rate to 8 per cent. The return, indeed, was a strong one, considering the position last week, when the reserve had been sadly depleted. For this improvement Paris is mainly responsible; but we understand that further assistance from that quarter is hardly probable, and if the outward flow to America continues in unabated force we shall have to draw from Russia, Germany, Austria, and the Low Countries. Unless a quite unexpected wave of returning confidence sweeps over the United States and induces the distrustful public to redeposit in the suspected banks and trust companies, the large banks will have to go on importing gold at whatever cost, and there will be no relaxation of the drain upon Europe until the Government of the United States consents to substitute for the vast ruins of credit a huge issue of paper currency, temporarily, if not permanently inconvertible. As the industrial and commercial distress becomes more and more acute, the probability of such an issue rapidly increases. We cannot count upon this as a certainty; it will be the last resort. But when the moment arrives, if it does arrive, we should expect to see a great return

flow of gold to Europe, and money, after rising here to extreme scarcity, might then become almost a drug in the market, especially if a severe check has been in the meantime administered to trade. For the moment the market here watches the out-flow of gold with well-founded anxiety, and the situation as we write is best summed up in the fact that on Friday afternoon the market rate of discount was practically up to Bank rate, money, of course, in the short loan market being comparatively easy.

Judged by telegrams and private advices, the situation in the States has been going from bad to worse. Already, it seems, as if in anticipation of a greenback issue, a premium on gold has risen up on top of the premium on currency. As to this our New York correspondent telegraphs:—

> 'New York, November 14th.—The situation here continues very mixed. The hoarding of money continues; but leading bankers insist that locally the position has improved. In the interior the tension is, however, as acute as ever, particularly owing to the preparation of the mid-monthly pay-rolls by railroads and industrial concerns. It is resulting in a widespread discharging of employees. It is quite impossible to calculate what the supply of currency may be, or where it is located. The use of small cheques is still extending, and it is said that prime mercantile paper is being discounted at 12 per cent. Premiums range to-day from $2\frac{3}{4}$ to 3 per cent. with that on gold occasionally above that on bank-notes, owing to the ability to transfer the former through the sub-Treasuries. The very acuteness itself, plus the remedial measures adopted, should work for an early cure.'

While a small special premium on gold has thus been established in the United States, Portuguese currency has depreciated to the extent of 10 or 11 per cent., and on Thursday the exchanges with Lisbon were quite upset. According to a *Standard* telegram from that city, the demoralisation is caused partly by the growing strength of the revolutionary movement, partly by commercial depression, partly by failure to maintain bank reserves, and partly by a belief that the Government intends to relieve its difficulties by an issue of paper currency.

Undoubtedly much embarrassment has already been caused in London by what may almost be called the stoppage of international credit communications. The banks are doing their best

to avert individual calamities in the hope that overdue remittances will not be much longer postponed. Perhaps the most disgraceful episode so far has been the refusal of the New York agents to pay in gold the New York City Revenue Bonds (for three, four, and six months), some of which are now falling due. Though these bonds are engraved as ' payable in gold ', they are now being redeemed in the depreciated paper currency of Clearing-house certificates on the plea that this ' current tender ' is a *de facto* legal tender. The transaction is more worthy of Rosario than of the commercial capital of the richest nation in the world. We feel sorry for the creditors of New York, but more sorry for its reputation.

Berlin is thought to be the weakest spot in Europe. The figures of the Reichsbank and the large gold exports to London are ominous. Assistance, it is said, is being afforded by the Imperial Bank of Russia. That has been done at similar crises in the past. It has been suggested to us by a keen observer that the gold coming through Berlin to London is the sum of about five millions sterling which Russia owes Japan, and which is now being liquidated in gold.

The Economist, 16th November 1907.

Discount and Loan Market

While the crisis in New York is not quite so acute, the general position in the United States cannot be said to have improved, as the lack of confidence has spread to the more remote parts of the country. The hoarding of currency remains a marked feature of the situation, and as the period of notice for the repayment of deposits in savings and other banks expires in a few days, there is, unless some degree of confidence is restored before these withdrawals can take place, a fear of even more complete collapse of credit than has yet been experienced. The situation here is, of course, strained, owing to the continuous demand for gold to go across the Atlantic. The Bank of France, however, has let out gold with considerable freedom, and large amounts have been received from other parts of the Continent. Messrs. Samuel Montagu & Co., in their weekly circular, dated November 14th, remark:—

' There are symptoms that the stringency in the United States

of America is entering upon a more acute stage, but as the competition for the bar gold arriving from the Cape proved not so keen owing to the difficulty in finding remittances, the £600,000 due was placed at $\frac{5}{8}$d. lower than the price of last week.'

Altogether, the Bank received from abroad a sum of £2,934,000 in gold, and as there was a reduction of about £237,000 in the home circulation of coin, the stock received an addition of £3,171,066, bringing it up to £31,896,291. There was also a reduction of £247,455 in the circulation of notes, the reserve thus being augmented by a total amount of £3,418,521. It now amounts to £21,113,316, and the proportion of reserve to liabilities is $5\frac{1}{4}$ higher than last week, at $40\frac{1}{2}$ per cent. The market has apparently reduced its indebtedness to the Bank by £1,581,818, that being the extent of the reduction in Other Securities. The Public Deposits show the small increase of £167,922, and the Private Deposits, owing to the influx of gold, are £1,647,057 up on the week. Supplies of loanable money have been variable, and rates rather wide, day-to-day money fluctuating between 4 and $5\frac{1}{2}$ per cent., while the usual rate for weekly loans has been $5\frac{1}{4}$ per cent. Discount rates have also been rather uncertain, and, while some relief was experienced when the directors decided to make no change in the Bank rate, the quotation for best three months' bills remained at about $6\frac{3}{4}$ per cent. The situation to-day (Friday) is more strained, and the three months' rate is anything from $6\frac{3}{4}$ to 7 per cent. . . .

The Economist, 23rd November 1907.

Discount and Loan Market

Unfortunately, it is impossible to say that any improvement has occurred in the monetary position during the past week. The monetary position, of course, means the situation in the United States. The announcement that the Government had decided to issue 50,000,000 dollars of Panama bonds and 100,000,000 dollars of Treasury certificates was cordially, if not joyfully, received, and there was quite a drop in discount rates, and almost a rush to take in bills, on the supposition that these issues would operate at once to bring out the hoarded currency, and so relieve the

strain. It soon became apparent, however, that the rather roundabout process by which the hoards were to be drawn out might not be so effective as was anticipated, the period of the notices for withdrawal of deposits is about to expire, and the pinch may become sharper than ever. The optimism was consequently shortlived; the outside rates were advanced again, and there were renewed fears that the Bank rate would be advanced to 8 per cent. Neither on Monday or Thursday, however, were these fears realised. On Monday quite a crowd gathered at the Bank, in the expectation that the further heavy gold withdrawal and the purchase of the Cape arrivals for the United States would force the Directors again to advance the Bank rate in the middle of the week, but their deliberations on Monday were devoted to quite a different object. After dropping for a time to 6½ per cent., the market rate has firmed up again to 6¾–7 per cent., and little disposition is evinced to do business below the official minimum. Loan rates have varied considerably, the approach of the end of the month having had some effect. Day-to-day loans have ranged from 4½–5½ to 5–6½ on different days, while the weekly rate has been fairly steady at 5¼–5½. The Bank Return shows that the stock of bullion amounts to £30,485,751, or £1,410,540 less than in the previous week's Return. The amount taken for export was £1,710,000, and there was consequently a reduction of about £300,000 in the home circulation of coin. The note circulation also showed a contraction of £212,625, the loss to the Reserve being £1,197,915. It amounted to £19,915,401, and the proportion of Reserve to liabilities was 1¾ lower, at 38¾ per cent. On balance, the Bank's dealings with the market resulted in an increase of £418,448 in the amount of Other Securities. The Public Deposits showed an increase of £826,263, while the Private Deposits fell off by £1,595,601. . . .

The Economist, 30th November 1907.

The Money Market

It now looks as if what may be called the gold stage of the American crisis had abated. The demands of the American banks are distinctly less pressing, and whereas last Friday the 7 per

cent. rate seemed likely to prove inadequate, there seems now every reason to believe that the last turn of the screw has been effectual. The open market rate shows that a reduction to 6 per cent. is already anticipated; but the Court of Directors have wisely deferred action until the American banks resume cash payments and the premium quite disappears. We do not agree with Sir Felix Schuster's opinion, expressed to the Institute of Bankers in his otherwise suggestive survey on Wednesday, that the present crisis has exposed defects in our banking system. On the contrary, we think Mr. Huth Jackson was right in saying 'He could not quite follow the President in deprecating the sensitiveness of the London money market to outside influences'. A free market for gold must be, and ought to be, sensitive to huge gold withdrawals. 'The organism of our market is so perfect, its mechanism so well-developed, that it responds at once to the touch of a foreign demand'. We hold with Mr. Jackson that this sensitiveness is an indication that the London money market is a live market, and that nothing should be done to remedy what is not a defect but a virtue. A 'cast-iron' gold reserve would be merely a dead-weight burden on bankers or tax-payers, or both, and the notion that we ought at all times to have such a hoard of gold that we could meet the heaviest demand ever known in the world's history without feeling it strikes us as preposterous. It reminds us forcibly of the experts of whom Sir Robert Peel used to complain, who would beggar the tax-payer in time of peace by frantic preparations for war. At the same time, we should much like to see the practice of 'window-dressing' suppressed by convention or law. Another point of interest is the difference between the Paris and the London money market. Up to seven or eight years ago the average level of our Bank rate was lower than theirs. The enormous drain of the Boer War naturally made capital and credit comparatively scarce in this country. Hence Paris has no doubt benefited as compared with London; but the absence of sensitiveness in Paris, which Sir Felix Schuster dwelt upon with admiration, affects us with a precisely opposite feeling. So long as Paris is comparatively dead and nerveless, with a gold trap instead of a gold market, so long is the supremacy of London assured. We had thought

that Berlin, rather than Paris, was Sir Felix Schuster's model for our imitation.

The addition of nearly two millions made to the Bank reserve was highly satisfactory, though it is still $1\frac{3}{4}$ millions less than at this time last year. It shows, however, that the Bank rate is quite as good an instrument now as it ever was. Even those who had most confidence in its efficacy have expressed surprise at the rapidity with which it has done its work, attracting gold in considerable quantities from such unexpected quarters as Scandinavia. We shall watch with great interest for the moment when the United States are surfeited with currency, and the gold which has been forced thither to patch up the broken edifice of credit begins to flow back. But lest any one should imagine that all difficulties begin and end with gold, we refer our readers to the report of our correspondent on the last Hamburg failure. Nothing could illustrate more forcibly the inter-dependence of modern banks and commercial houses and the international character of modern credit operations. . . .

The Economist, 28th December 1907.

The Money Market

From a purely City point of view the year 1907 is ending gloomily enough in an atmosphere of dear money and shaken credit, a crisis still raging in the United States, and something very like a crisis threatening Germany. It has been a very bad year for the Stock Exchange. Some of the biggest jobbers say frankly that it is the worst they remember. The value of stocks on their hands has dwindled terribly, and the belief which prevailed at most times that prices were still on the down grade reduced speculation much below the ordinary level. Even investment buying has been in smaller volume than usual, for investors are tempted far more by a rising than by a falling market; but, of course, brokers with an old-fashioned investment business have suffered less than those whose business depends upon speculation.

Since the author of 'Lombard Street' first gave the readers of the Economist a scientific view of the money market, that market has been taking year by year a more and more cosmo-

politan character. The tendency, already pronounced in Mr. Bagehot's time, has been accelerated by the marvellous developments of traffic and telegraphy, which have internationalised speculation, revolutionised exchange, and have so invigorated the currents of trade that it has flowed in ever-growing volume over the artificial walls of tariffs. In such a year of stress and storm as 1907 the changes that have been stealing over an institution are often suddenly disclosed and thrown into relief, just as the character of a man shows itself in difficulties and dangers. 'Until the shock we feel, we know not what is tempered tin and what is burnished steel.' So in the repeated shocks that credit has sustained this year, and especially in the monstrous perturbations of the United States, we have been enabled to see how London, the capital of Free-trade and the great emporium of gold, plays its lucrative but onerous part as the distributor and collector of credit, the clearing-house of the world. We have no reason to be ashamed. The collapse of the American system has only brought our supremacy into relief. Hard hit as this country has been by the loss of capital and accumulation of debt in war, we have been able to stand the racket of an almost unprecedented monetary strain. London is sensitive but safe, because our basis is automatic, and we respond freely to foreign demands.

The half-year which comes to an end on Tuesday next has, of course, been a period of very high average rates for money, but so also was the December half-year of 1906, and we may note that it is not merely because the 7 per cent. rate has prevailed for 55 days of the past half-year that the average is higher than last year, but because during the last six months of 1906 as many as 74 days were covered with the Bank rate at $3\frac{1}{2}$ per cent. This year, although the acute crisis in American affairs did not arrive till the end of October, the Bank rate was never lower than 4 per cent. The average for the six months works out at £5 3*s*. 5*d*. per cent., as compared with £4 12*s*. 3*d*. per cent. in the December half-year of 1906. The average market rate for best three months' bills is £4 15*s*. 4*d*. per cent., as compared with £4 9*s*. 5*d*. per cent. in the corresponding period. The average rate allowed by the joint-stock banks on deposits during the six months is equal to £3 4*s*. 3*d*. per cent., against £2 18*s*. 11*d*. per cent. in the corresponding period.

It follows, therefore, that the margin of profit for the banks between average interest paid and the average discount rate for best three months' bills is £1 11*s*. 1*d*. per cent., as compared with £1 10*s*. 6*d*. per cent. That is not a great increase, but the banks have also secured the benefit of higher rates upon the large funds, the use of which they obtain free of interest in the shape of current account balances. There has been no wide difference in the rates for short loans and for fortnightly loans to the Stock Exchange. On the other hand, the volume of Stock Exchange business has been very small, and probably of late less money has been required for trade purposes. On the whole, therefore, the banks may have earned slightly larger profits than were secured in the December half-year of 1906. There can hardly be any present necessity for further writing down of investments, and some funds should be available for increasing reserves or other purposes. It seems doubtful, however, whether there will be enough to warrant the payment of higher dividends, except possibly in one or two isolated cases.

Things have hardly changed since last week, though yesterday the market was rather more cheerful, both as regards Germany and the United States. There seemed to be less demand for gold. Nobody, however, can explain why the premium on currency refuses to disappear, or why, if the situation is better, the New York banks are unable to return to cash payments when the Western and Southern banks profess readiness to do so. Nor is the dropping fire of failures reassuring. Our New York correspondent's statistics of imports and exports quite confirm our previous forecast of the possibility of gold returning before long. And it will be seen that our Hamburg correspondent expects a demand for sugar from the States. If the American people have to choose between food and gold there will hardly be a prolonged hesitation; but, of course, there is the alternative of realising capital in the form of railroad and other bonds. Altogether the immediate future of money is wrapped in a fog, and the wisest prophets of the City are dumb. . . .

PART III

JOINT STOCK BANKING

REPORT OF THE SECRET COMMITTEE OF THE HOUSE OF COMMONS ON JOINT STOCK BANKS, 20TH AUGUST 1836

(Parliamentary Papers, 1836, vol. ix.)

THE SECRET COMMITTEE appointed to inquire into the Operation of the Act of the 7 Geo. IV, c. 46, permitting the establishment of Joint Stock Banks under certain Restrictions, and whether it be expedient to make any Alteration in the Provisions of that Act:—Have considered the Matters referred to them, and have agreed upon the following REPORT.

Although their inquiries have not yet been brought to a close, Your Committee feel it to be their duty to state that the Evidence already taken before them has fully proved, not only the expediency, but the urgent necessity of having instituted a close and searching examination into the laws which regulate Joint Stock Banks, the principles on which those Establishments are conducted, and the consequences to which they lead. No subject at the present moment more deeply important to the interest of the Public, as well as to the interest of individuals, could have engaged the attention of Parliament; and Your Committee have endeavoured to apply themselves to the execution of their duties with diligence, attention and zeal.

In order to bring before Your Committee the more important facts of the case, their Chairman was instructed to address to the several Joint Stock Banks throughout England and Wales a Circular, to the following effect:—

(Private Circular)

Downing Street, May 21.

Gentlemen,

In pursuance of a Resolution of the House of Commons, adopted unanimously on the 13th instant, a Committee has been appointed, ' to inquire into the operation of the Act of the 7 Geo. 4, c. 46, permitting the establishment of Joint Stock Banks, under certain Restrictions, and to examine whether it be expedient to make any alterations in the provisions of that

Act.' Of that Committee I have the honour to be Chairman, and at the first meeting I was requested to obtain from the Joint Stock Banks such information as may enable the Committee to execute the duties confided to them by the Legislature.

As it was considered just to the parties concerned that the Committee appointed should be one of secrecy, for the purpose of avoiding any disclosure of private transactions not required by the public interest, in place of transmitting to you the usual order of the Committee, issued under the power and authority of the House of Commons, it has been judged more advisable that this communication should be addressed to the Joint Stock Banks by me as Chairman, and that your reply should be addressed, under cover, to 'The Chancellor of the Exchequer', and marked 'Confidential Bank Returns'. I inclose two papers calling your attention to the particular points on which the Committee require information, and you will be so good as to fill up the return with as little delay as possible. The account of liabilities and assets (No. 2) should if possible be furnished for the three last half yearly periods to which your accounts are made up, and the answers to the questions in the paper (No. 1) may be made in reference to your last period of balance. This may, I hope, diminish the trouble imposed upon you; and the returns called for may also limit the examination of witnesses. You will not hold yourself precluded from adding any explanations not coming within the scope of these inquiries; and I can assure you that whilst I place every confidence in the zeal and readiness with which you will promote the objects of this inquiry, it is at the same time the earnest desire of the Committee so to govern their proceedings as most to conduce to the convenience of all parties concerned.

I am, &c.,
(Signed) T. Spring Rice.

. . . . . .

An objection was at first raised on the part of some few of these Establishments against furnishing the information required; but this objection was very soon abandoned, and the greatest readiness was generally expressed on the part of the Joint Stock Banks

to lay before Your Committee the most minute details illustrative of their mode of transacting business.

Your Committee cannot avoid remarking that this readiness to meet inquiry is in itself the surest pledge and guarantee of the sound principles on which these or any other Establishments are conducted, and of the fidelity with which the Duties confided to Directors or Managers are performed. Had the objection been persisted in, Your Committee would not have hesitated in reporting the facts specially, confident that The House would not have permitted any individuals whatever to impede an inquiry, instituted by Parliamentary authority, and with a view to the public interests.

Your Committee have felt it to be their duty to submit the Evidence to the reconsideration of the several Witnesses examined, in order that they might be enabled to express an opinion whether the same might be published without risk or inconvenience.

To this rule they made one exception; in the case of the Norwich and Norfolk Bank, which has now ceased to exist, and in respect to which the same motives for reserve could not be held to apply, Your Committee have published the whole Evidence as it was given, without any second communication to the Witnesses. That case illustrates most forcibly the evils consequent upon a misapplication of the principle of Joint Stock Banking, and the danger resulting from mismanagement and irregularity. At the same time, Your Committee must guard against the inference that the disclosures made in that case by the three Witnesses examined, furnish any evidence of the mode in which the Joint Stock Banks of England are generally conducted. On the contrary, many of the Establishments appear to be prudently conducted, and though an inattention to the sound principles on which banking operations should be conducted, is exhibited in several cases, the ultimate solvency of the Banks, and their power of fully meeting their engagements, must not be brought into doubt.

The Evidence taken before Your Committee and the Returns from the Stamp Office establish the fact, that these Banks are rapidly extending in all directions; that new Companies are daily forming, and that an increased number of Branches and Agencies

are spreading throughout England, even in small Towns and Villages,—that a principle of competition exists which leads to the extinction of all Private Banks, and to their conversion into Banking Companies. The mode in which this is effected, and the principle on which the issue of transferable shares acts at once on Private Banks, and generally on commercial credit, is fully developed in the Evidence.

Your Committee have had before them the Deeds of Settlement of the greater number of the existing Joint Stock Banks, and they proceed to submit to The House an analysis of some of their leading provisions.

Though the general objects of these establishments are much alike, yet there are some variations in their Deeds of Settlement, which it may be material to point out.

First, as to the power of altering the regulations of the company.

The active duties are generally delegated to a small body, called the Directors, while the main body of Proprietors reserve to themselves the power of selecting the Directors, and of altering from time to time the rules by which the Directors are to be governed. Indeed it might have been expected that the Proprietors would always have reserved to themselves this power; nor should this general rule have been noticed, had it not been necessary to point out a signal exception to it, in the case of one particular company, in which all the powers of the company are vested in the Directors of the Central Bank until January 1838, and even after that date this authority is only to be controlled by the ' General Board of Directors ', consisting of the Central Directors themselves and of the Local Directors of Branch Banks appointed by them. The Deeds of all the other Companies expressly give a power to the Shareholders to make new laws and regulations.

Secondly, as to the mode of conducting the business of banking.

This is for the most part set out in general terms. Some Banking Companies content themselves with defining the business to be ' banking in all its branches '; in other cases it is called ' the business of bankers '.

Advancing money on real security is in no instance forbidden.

The Deeds of three Companies are silent on the subject; the rest expressly allow it.

The majority of the Deeds are silent on the subject of the purchase of land. The —— Banking Company expressly allows it. The —— Banking Company and the Union Banking Company expressly forbid it.

An advance of money on mining concerns is in no instance expressly allowed; in many it is expressly forbidden; in the majority it is passed over in silence.

Advances of money upon any 'public foreign government stock or the stock of any foreign chartered public company', is directly sanctioned in the Deeds of four Banking Companies. Investment in foreign government stock or funds is allowed by the Deed of another Bank. Such advances are expressly forbidden by many of the Deeds, and are passed over in silence by many others.

In no instance is the Company forbidden to become the purchaser of its own shares; but, on the contrary, power is expressly given to do so by means of the Deeds, and that to any amount. The only modifications of this power which Your Committee have found, are in the case of one Banking Company, in which the Directors are authorized to purchase shares in the case only of a refusal to admit as a Proprietor the person proposing to buy; and in the case of another Bank, in which the number of shares to be bought in by the Directors is restricted to 40.

Thirdly, as to the degree of publicity to be given to the proceedings.

No principle seems to be more attended to or prominently put forward, than that of preserving secresy as to the state of the accounts of the customers of the Banks. To this principle there does not appear to be an exception.

The Directors are in general required to sign a declaration, pledging themselves to observe secresy as to the transactions of the Bank with their customers, and the state of the accounts of individuals. In some of the Companies this declaration is also to be signed by all the clerks and officers. One Banking Company goes so far as to require an oath to this effect. If the Proprietors are dissatisfied with the statement of accounts made by the Directors, a power is generally reserved to appoint auditors or

inspectors for the examination of the books, but these auditors or inspectors are required to sign a similar declaration of secresy.

No Proprietor, not being a Director, is entitled to inspect any of the books of the company.

The Directors are in general bound to exhibit to the general meeting of the Shareholders a summary or balance-sheet of their affairs, and to make such further statement or report as the Directors may deem expedient and conducive to the interests of the Company. In the case of one of these Banks even this is not obligatory by the terms of the Deed, which leave it to the discretion of the Directors whether they do or do not exhibit a balance-sheet. In a very extensive Bank the Proprietors annually appoint auditors to examine the affairs of the Company and to report thereon.

In some of the Companies the principle of secresy is carried still further; two of the Directors selected from the rest are the exclusive depositors of the power of inspecting the private accounts of customers. These persons are sometimes called ' Confidential Directors '. This provision is stated to be made ' in order that the credit and private transactions of individuals may be preserved inviolate '. Sometimes they are called ' Managing Directors '; sometimes ' Special Directors '.

In other Companies, though all the Directors have the power of inspection of the accounts of customers, two of the Directors are selected to inspect Bills and Notes, ' in order to prevent the exposure of such Bills of Exchange and Promissory Notes as may pass through the Bank '. These two Directors are called the ' Bill Committee '. In two of the Companies a single person called the ' Manager ' has the exclusive power of inspecting Bills and Notes.

Fourthly, as to the terms on which the Company is to be dissolved.

The Deeds of all these Companies contain some provision for Dissolution in certain contingencies. It is in general provided that a Dissolution of the Company shall take place by reason either of a certain amount of loss, or of a voluntary agreement. Dissolution by reason of loss in the great majority of the Deeds is provided for in the following manner:

It is necessary to premise that the Directors of each of these

Companies are bound to set aside a certain portion of the profits to form a fund to meet extraordinary demands, which fund is sometimes called the ' Surplus Fund ', sometimes the ' Reserve Fund ', but more usually the ' Guarantee Fund '. The ordinary provision for Dissolution is to this effect: that if the losses sustained shall at any time have absorbed the whole of this Guarantee Fund, and also one-fourth of the Capital paid up, then any one Shareholder may require the Dissolution of the Company, which shall take place accordingly, unless two-thirds in number and value of the Shareholders shall be desirous of continuing the Company, and shall purchase the shares of those Proprietors who wish to withdraw. In one Bank the dissolution of the Company takes place upon a loss of one-fifth instead of one-fourth of the Capital. In two other Banks no mention is made of the Guarantee Fund.

The provision of the great majority of Deeds, as above stated, is, that in the event of a given amount of loss, any one Shareholder may propose the Dissolution. In some three Shareholders are required. In the Banking Company A. the requisition for dissolution must be made by 10 Shareholders, holding 200 shares; in the Bank B., by one-fourth of the Company; but if the loss amount to one-half of the Capital, then by any single Shareholder.

By the general provisions of the great majority of Deeds, the Dissolution of the Company, though duly proposed, may be averted by two-thirds of the Proprietors; but in some there exists no such restriction; and on the occurrence of a given amount of loss, the Dissolution, if proposed, must necessarily take place. In other instances, on the appearance of a given amount of loss, the Dissolution is to take place immediately, even though no Partner should propose it.

The Banking Company C. has provisions for Dissolution peculiar to itself, and, among others, it is set forth that the Partnership shall determine on the 1st January 2001.

The Bank of D, besides the usual provision for Dissolution in case of a loss, has a provision for Dissolution if the Company shall not repay a contribution to a Shareholder who shall have been compelled to pay a debt of the Company.

A Dissolution, by voluntary agreement, may in general be

directed by a majority of two-thirds of the Shareholders in number and value, but with the concurrence of a certain number of the Directors.

In some Companies a voluntary Dissolution may be effected by three-fourths of the Shareholders, in others by a majority; in a few others there is no provision for a voluntary Dissolution.

The House will see from this Analysis that these Deeds of Partnership, on which depend the whole transactions of the Banks and their responsibility to the Public, so far from being framed according to one common and uniform principle, differ materially from each other in many most important particulars; and in some instances the Deeds contain provisions open to very serious objection, as entailing possible consequences highly injurious to the interests of the Public and of the Banking Establishments themselves.

Your Committee will now call the attention of The House to some few facts which illustrate the present system.

Subject to the local restrictions imposed for the protection of the privilege of the Bank of England, it is open to any number of persons to form a Company for Joint Stock Banking, whether for the purpose of deposit, or of issue, or of both.

1. The Law imposes on the Joint Stock Banks no preliminary obligation beyond the payment of a license duty, and the registration of the names of Shareholders at the Stamp Office.

2. The Law does not require that the Deed of Settlement shall be considered or revised by any competent authority whatever, and no precaution is taken to enforce the insertion in such Deeds of clauses the most obvious and necessary.

3. The Law does not impose any restrictions upon the amount of nominal Capital. This will be found to vary from £5,000,000 to £100,000, and in one instance an unlimited power is reserved of issuing shares to any extent.

4. The Law does not impose any obligation that the whole or any certain amount of shares shall be subscribed for before banking operations commence. In many instances Banks commence their business before one-half of the shares are subscribed for, and 10,000, 20,000, and 30,000 shares are reserved to be issued at the discretion of the Directors.

5. The Law does not enforce any rule with respect to the nominal amount of shares. These will be found to vary from £1,000 to £5. The effects of this variation are strongly stated in the Evidence.

6. The Law does not enforce any rule with respect to the amount of Capital paid up before the commencement of business. This will be found to vary from £105 to £5.

7. The Law does not provide for any publication of the liabilities and assets of these Banks, nor does it enforce the communication of any balance sheet to the Proprietors at large.

8. The Law does not impose any restrictions by which care shall be taken that dividends are paid out of banking profits only, and that bad or doubtful debts are first written off.

9. The Law does not prohibit purchases, sales and speculative traffic on the part of these Companies in their own stock, nor advances to be made on the credit of their own shares.

10. The Law does not provide that the Guarantee Fund shall be kept apart and invested in Government or other securities.

11. The Law does not limit the number of branches or the distance of such branches from the Central Bank.

12. The Law is not sufficiently stringent to insure to the Public that the names registered at the Stamp Office are the names of persons *bonâ fide* Proprietors, who have signed the Deed of Settlement, and who are responsible to the Public.

13. The provisions of the Law appear inadequate, or at least are disregarded, so far as they impose upon Banks the obligation of making their notes payable at the places of issue.

All these separate questions appear to Your Committee deserving of the most serious consideration, with a view to the future stability of the Banks throughout the United Kingdom, the maintenance of Commercial Credit, and the preservation of the Currency in a sound state.

The most important facts which have come under the consideration of Your Committee, are connected with the operation of the Joint Stock Banks on Credit and Circulation. It appears that a great extension has been given to both, and that if the operations of all Banks, whether private, or formed on Joint Stock principles, are not conducted with prudence and with caution,

measures adopted by the Bank of England with a view to the state of the Foreign Exchanges, and of the consequent demand for Bullion, may be counteracted by the advances and increased issues of Country Banks. . . .

It was under the consideration of Your Committee whether the Law, and the practice which they have described, did not require the interposition of the Legislature even during the present Session. They have been led to decline pursuing this course, because their inquiries are incomplete, and because they feared that more inconvenience might have resulted from an imperfect measure than from allowing the evils of the present system to continue without legislative remedy till the next Session of Parliament. If a Bill had been introduced, prospective only in its enactments, an inference might have been raised contrary to that which is the decided opinion of Your Committee, namely, that the existing Banks are subject to any revision of the Law which Parliament may enact. The right of the Legislature to interfere, not only in respect to Banks to be established hereafter, but in respect to existing establishments also, is a principle which Your Committee are prepared to assert in the strongest manner. They have now before them the accounts of the existing Joint Stock Banks, exhibiting in very minute detail their mode of conducting their business. If, as Your Committee strongly recommend, it should be the pleasure of The House to renew this inquiry at the opening of the next Session, a continuation of these accounts would necessarily be called for. It is the earnest hope of Your Committee that the comparison of these two series of accounts may prove that the banking operations during the recess may have been conducted with prudence and caution, and more particularly that those who assume the responsibility of issuing notes payable on demand, have felt it to be their pressing duty to examine accurately the state of the Exchanges, the proceedings of the Bank of England in reference to its issues, and may thus guard against the dangerous error of an imprudent extension either of Credit or of Circulation when an opposite course was rendered necessary.

Your Committee, in conclusion, feel it their duty not only to recommend caution to the Directors and Managers, but vigilance and attention to the Proprietors of Joint Stock Banks also. By

several of the Deeds of Settlement, imperfect as many of those Deeds are, it has already been shown that the Proprietors are entitled to an inspection of the balance-sheet, and in some instances to an examination of that account. When it is considered how great is the responsibility which the Law imposes on these Shareholders, Your Committee cannot but hope that these functions will be strictly exercised by the Proprietors. On this check much will depend during the interval which must elapse before Parliament is called upon to interfere further.

THE JOINT STOCK BANKING CODE, 1844–62

7 & 8 VICT. c. 113.

An Act to regulate the Joint Stock Banks in *England*.

(*5th September* 1844.)

Whereas the Laws in force for the Regulation of Copartnerships of Bankers in *England* need to be amended: Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, That it shall not be lawful for any Company of more than Six Persons to carry on the Trade or Business of Bankers in *England*, after the passing of this Act, under any Agreement or Covenant of Copartnership made or entered into on or after the Sixth Day of *May* last passed, unless by Virtue of Letters Patent to be granted by Her Majesty according to the Provisions of this Act; but nothing herein contained shall be construed to restrain any such Company established before the said Sixth Day of *May*, for the Purpose of carrying on the said Trade or Business of Bankers in *England*, from continuing to carry on the same Trade and Business as legally they might have done before the passing of this Act, until Letters Patent shall have been granted to them severally on their Application, as herein-after provided, to be made subject to the Provisions of this Act.

II. And be it enacted, That before beginning to exercise the said Trade or Business every such Company shall present a Petition to Her Majesty in Council, praying that Her Majesty will be

graciously pleased to grant to them Letters Patent under this Act; and every such Petition shall be signed by Seven at least of the said Company, and shall set forth the following Particulars; (that is to say,)

First, The Names and Additions of all the Partners of the Company, and the Name of the Street, Square, or other Place where each of the said Partners reside:

Second, The proposed Name of the Bank:

Third, The Name of the Street, Square, or other local Description of the Place or Places where the Business of the Bank is to be carried on:

Fourth, The proposed Amount of the Capital Stock, not being in any case less than One hundred thousand Pounds, and the Means by which it is to be raised:

Fifth, The Amount of Capital Stock then paid up, and where and how invested:

Sixth, The proposed Number of Shares in the Business:

Seventh, The Amount of each Share, not being less than One hundred Pounds each.

III. And be it enacted, That every such Petition shall be referred by Her Majesty to the Committee of Privy Council for Trade and Plantations, and so soon as the Lords of the said Committee shall have reported to Her Majesty that the Provisions of this Act have been complied with on the part of the said Company, it shall thereupon be lawful for Her Majesty, if Her Majesty shall so think fit, and with the Advice of Her Privy Council, to grant the said Letters Patent.

IV. And be it enacted, That the Deed of Partnership of every such Banking Company shall be prepared according to a Form to be approved by the Lords of the said Committee, and shall, in addition to any other Provisions which may be contained therein, contain specific Provisions for the following Purposes; (that is to say,)

First, for holding Ordinary General Meetings of the Company once at least in every Year, at an appointed Time and Place:

Second, For holding Extraordinary General Meetings of the

Company, upon the Requisition of Nine Shareholders or more, having in the whole at least Twenty-one Shares in the Partnership Business:

Third, For the Management of the Affairs of the Company, and the Election and Qualification of the Directors:

Fourth, For the Retirement of at least One Fourth of the Directors yearly, and for preventing the Re-election of the retiring Directors for at least Twelve Calendar Months:

Fifth, For preventing the Company from purchasing any Shares or making Advances of Money, or Securities for Money, to any Person on the Security of a Share or Shares in the Partnership Business:

Sixth, For the Publication of the Assets and Liabilities of the Company once at least in every Calendar Month:

Seventh, For the yearly Audit of the Accounts of the Company by Two or more Auditors chosen at a General Meeting of the Shareholders, and not being Directors at the Time:

Eighth, For the yearly Communication of the Auditors Report, and of a Balance Sheet, and Profit and Loss Account, to every Shareholder:

Ninth, For the Appointment of a Manager or other Officer to perform the Duties of Manager:

And such Deed, executed by the Holders of at least One Half of the Shares in the said Business, on which not less than Ten Pounds on each such Share of One hundred Pounds, and in proportion for every Share of larger Amount, shall have been then paid up, shall be annexed to the Petition; and the Provisions of such Deed, with such others as to Her Majesty shall seem fit, shall be set forth in the Letters Patent.

V. Provided always, and be it enacted, That it shall not be lawful for any such Company to commence Business until all the Shares shall have been subscribed for, and until the Deed of Partnership shall have been executed, personally or by some Person duly authorized by Warrant of Attorney to execute the same on behalf of such Holder or Holders, by the Holders of all the Shares in the said Business, and until a Sum of not less than One Half of the Amount of each Share shall have been paid up in respect

of each such Share; and it shall not be lawful for the Company to repay any Part of the Sum so paid up without Leave of the Lords of the said Committee.

VI. And be it enacted, That it shall be lawful for Her Majesty in and by such Letters Patent to grant that the Persons by whom the said Deed of Partnership shall have been executed, and all other Persons who shall thereafter become Shareholders in the said Banking Business, their Executors, Administrators, Successors, and Assigns respectively, shall be One Body Politic and Corporate, by such Name as shall be given to them in and by the said Letters Patent, for the Purpose of carrying on the said Banking Business, and by that Name shall have perpetual Succession and a Common Seal, and shall have Power to purchase and hold Lands of such annual Value as shall be expressed in such Letters Patent; and such Letters Patent shall be granted for a Term of Years, not exceeding Twenty Years, and may be made subject to such other Provisions and Stipulations as to Her Majesty may seem fit.

VII. Provided always, and be it enacted, That notwithstanding such Incorporation the several Shareholders for the Time being in the said Banking Business, and those who shall have been Shareholders therein, and their several Executors, Administrators, Successors, and Assigns, shall be and continue liable for all the Dealings, Covenants, and Undertakings of the said Company, subject to the Provisions herein-after contained, as fully as if the said Company were not incorporated.

VIII. And be it enacted, That no Action or Suit by or against the Company shall be in anywise affected by reason of the Plaintiff or Defendant therein being a Shareholder or former Shareholder of the Company; but any such Shareholder, either alone or jointly with another Person as against the Company, or the Company as against any such Shareholder, either alone or jointly with any other Person, shall have the same Action and Remedy in respect of any Cause of Action or Suit whatever which such Shareholder or Company might have had if such Cause of Action or Suit had arisen with a Stranger.

IX. And be it enacted, That every Judgment, Decree, or Order

of any Court of Justice in any Proceeding against the Company may be lawfully executed against, and shall have the like Effect on, the Property and Effects of the Company, and also, subject to the Provisions herein-after contained, upon the Person, Property, and Effects of every Shareholder and former Shareholder thereof, as if every individual Shareholder and former Shareholder had been by Name a Party to such Proceeding.

X. And be it enacted, That it shall be lawful for the Plaintiff to cause Execution upon any Judgment, Decree, or Order obtained by him in any such Action or Suit against the Company to be issued against the Property and Effects of the Company; and if such Execution shall be ineffectual to obtain Satisfaction of the Sums sought to be recovered thereby, then it shall be lawful for him to have Execution in satisfaction of such Judgment, Decree, or Order against the Person, Property, and Effects of any Shareholder, or, in default of obtaining Satisfaction of such Judgment, Decree, or Order from any Shareholder, against the Person, Property, and Effects of any Person who was a Shareholder of the Company at the Time when the Cause of Action against the Company arose: Provided always, that no Person having ceased to be a Shareholder of the Company shall be liable for the Payment of any Debt for which any such Judgment, Decree, or Order shall have been so obtained, for which he would not have been liable as a Partner in case a Suit had been originally brought against him for the same, or for which Judgment shall have been obtained, after the Expiration of Three Years from the Time when he shall have ceased to be a Shareholder of such Company; nor shall this Act be deemed to enable any Party to a Suit to recover from any individual Shareholder of the Company, or any other Person whomsoever, any other or greater Sum than might have been recovered if this Act had not been passed.

XI. And be it enacted, That every Person against whom or against whose Property or Effects any such Execution shall have issued shall be reimbursed out of the Property and Effects of the Company for all Monies paid, and for all Damages, Costs, and Expences incurred by him by reason of such Execution, or of the Action or Suit in which the same shall have issued, or, in

default of such Reimbursement, by Contribution from the other Shareholders of the Company.

XII. And be it enacted, That if any such Execution be issued against any present or former Shareholder of the Company, and if, within Fourteen Days next after the Levying of such Execution, he be not reimbursed, on Demand, out of the Property and Effects of the Company, all such Monies, Damages, Costs, and Expences as he shall have paid or incurred in consequence of such Execution, it shall be lawful for such Shareholder, or his Executors or Administrators, to have Execution against the Property and Effects of the Company in satisfaction of such Monies, Damages, Costs, and Expences; and the Amount of such Monies, Damages, Costs, and Expences shall be ascertained and certified by One of the Masters or other Officer of the Court out of which such Execution shall issue.

XIII. And be it enacted, That in the Cases provided by this Act for Execution on any Judgment, Decree, or Order in any Action or Suit against the Company, to be issued against the Person or against the Property and Effects of any Shareholder or former Shareholder of such Company, or against the Property and Effects of the Company at the Suit of any Shareholder or former Shareholder, in satisfaction of any Monies, Damages, Costs, and Expences paid or incurred by him as aforesaid in any Action or Suit against the Company, such Execution may be issued by Leave of the Court, or of a Judge of the Court in which such Judgment, Decree, or Order shall have been obtained, upon Motion or Summons for a Rule to show Cause, or other Motion or Summons consistent with the Practice of the Court, without any Suggestion or Scire facias in that Behalf, and that it shall be lawful for such Court or Judge to make absolute or discharge such Rule, or allow or dismiss such Motion, (as the Case may be,) and to direct the Costs of the Application to be paid by either Party, or to make such Order therein as to such Court or Judge shall seem fit; and in such Cases such Form of Writs of Execution shall be sued out of the Courts of Law and Equity respectively, for giving effect to the Provision in that Behalf aforesaid, as the Judges of such Courts respectively shall from Time

to Time think fit to order, and the Execution of such Writs shall be enforced in like Manner as Writs of Execution are now enforced; provided that any Order made by a Judge as aforesaid may be discharged or varied by the Court, on Application made thereto by either Party dissatisfied with such Order; provided also, that no such Motion shall be made nor Summons granted for the Purpose of charging any Shareholder or former Shareholder until Ten Days Notice thereof shall have been given to the Person sought to be charged thereby.

XIV. And be it enacted, That if such Shareholder be not by the Means aforesaid fully paid all such Monies, with Interest, Damages, Costs, and Expences as he shall have paid or incurred by reason of any such Execution, it shall be lawful for him, his Executors or Administrators, to divide the Amount thereof, or so much thereof as he shall not have been reimbursed, into as many equal Parts as there shall then be Shares in the Capital Stock of the Company (not including Shares then under Forfeiture); and every Shareholder for the Time being of the Company, and the Executors or Administrators of every deceased Shareholder, shall, in proportion to the Number of Shares which they may hold in the Company, pay One or more of such Parts, upon Demand, to the Shareholder against whom such Execution shall have been issued, or to his Executors or Administrators; and upon Neglect or Refusal so to pay, it shall be lawful for such Shareholder, his Executors or Administrators, to sue for and recover the same against the Shareholder, or the Executors or Administrators of any Shareholder, who shall so neglect or refuse as aforesaid, in any of Her Majesty's Courts of Record at *Westminster*, or in any other Court having Jurisdiction in respect of such Demand.

XV. And be it enacted, That if the Shareholder or former Shareholder against whom any such Execution shall have issued, his Executors or Administrators, shall, by reason of the Bankruptcy or Insolvency of any Shareholder, or from any other Cause, but without any Neglect or wilful Default on his own Part, be prevented from recovering any Proportion of the Monies, Costs, or Expences which he shall have so paid, it shall be lawful for him, his Executors or Administrators, again to divide the Amount of

all such Monies, Costs, and Expences as shall not have been recovered by him or them into as many equal Parts as there shall then be Shares in the Capital Stock of the Company (not including the Shares then under Forfeiture), except the Shares in respect of which such Default shall have happened; and every Shareholder for the Time being of the Company, and the Executors or Administrators of every deceased Shareholder, except as aforesaid, shall rateably, according to the Number of Shares which they shall hold in the Company, upon Demand, pay One or more such last-mentioned Parts to the Shareholder against whom such Execution shall have issued, his Executors or Administrators; and in default of Payment he or they shall have the same Remedies in all respects for the Recovery thereof as under the Provisions herein-before mentioned are given in respect of the original Proportions of such Monies, Damages, Costs, and Expences; and if any Proportion of the said Monies, Damages, Costs and Expences shall remain unpaid by reason of any such Bankruptcy, Insolvency, or other Cause as aforesaid, such Shareholder, his Executors or Administrators, shall have in like Manner, from Time to Time, and by way of accumulative Remedy, the same Powers, according to the Circumstances of the Case, of again dividing and enforcing Payment of the Amount of such Proportion, until he or they shall, in the End, if a former Shareholder, be fully reimbursed the whole of the said Monies, Costs, and Expences, and if then a Shareholder, the whole, excepting the Portions belonging to the Shares held by him.

XVI. And be it enacted, That within Three Months after the Grant of the said Letters Patent, and before the Company shall begin to carry on their Business as Bankers, an Account or Memorial shall be made out, according to the Form contained in the Schedule marked (A.) to this Act annexed, wherein shall be set forth the true Title or Firm of the Company, and also the Names and Places of Abode of all the Members of such Company as the same respectively shall appear on the Books of such Company, and also the Name and Place of Abode of every Director and Manager or other like Officer of the Company, and the Name or Firm of every Bank or Banks established or to be established

by such Company, and also the Name of every Town or Place where the Business of the said Company shall be carried on; and a new Account or Memorial of the same Particulars shall be made by the said Company in every Year, between the Twenty-eighth Day of *February* and the Twenty-fifth Day of *March*, while they shall continue to carry on their Business as Bankers; and every such Memorial shall be delivered to the Commissioners of Stamps and Taxes at the Stamp Office in *London*, who shall cause the same to be filed and kept in the said Stamp Office, and an Entry or Registry thereof to be made in a Book or Books to be there kept for that Purpose by some Person or Persons to be appointed by the said Commissioners in that Behalf, which Book or Books any Person or Persons shall from Time to Time have Liberty to search and inspect on Payment of the Sum of One Shilling for every Search; and the Company shall from Time to Time cause to be printed and kept, in a conspicuous Place accessible to the Public in their Office or principal Place of Business, a List of the registered Names and Places of Abode of all the Members of such Company for the Time being.

XVII. Provided also, and be it enacted, That the Manager or one of the Directors of every such Company shall, from Time to Time as Occasion shall require, make out in manner herein-before directed, and cause to be delivered to the Commissioners of Stamps and Taxes as aforesaid, a further Account or Memorial, according to the Form contained in the Schedule marked (B.) to this Act annexed, of the Name and Place of Abode of every new Director, Manager, or other like Officer of such Company, and also of the Name or Names of any Person or Persons who shall have ceased to be Members of such Company, and also of the Name or Names of any Person or Persons who shall have become a Member or Members of such Company, either in addition to or instead of any former Member or Members thereof, and of the Name or Names of any new or additional Town or Towns, Place or Places, where the Business of the said Company is carried on; and such further Account or Memorial shall from Time to Time be filed, and kept and entered and registered at the Stamp Office in *London*, in like Manner as is herein-before

required with respect to the original or annual Account or Memorial herein-before directed to be made.

XVIII. And be it enacted, That the several Memorials aforesaid shall be signed by the Manager or one of the Directors of the Company, and shall be verified by a Declaration of such Manager or Director before a Justice of the Peace, or a Master or Master Extraordinary of the High Court of Chancery, made pursuant to the Provisions of an Act passed in the Sixth Year of His late Majesty's Reign, intituled *An Act to repeal an Act of the present Session of Parliament, intituled, 'An Act for the more effectual 'Abolition of Oaths and Affirmations taken and made in various 'Departments of the State, and to substitute Declarations in lieu 'thereof, and for the more entire Suppression of voluntary and 'extra-judicial Oaths and Affidavits,' and to make other Provisions for the Abolition of unnecessary Oaths*; and if any Declaration so made shall be false in any material Particular the Person wilfully making such false Declaration shall be guilty of a Misdemeanour.

XIX. And be it enacted, That a true Copy of any such Memorial, certified under the Hand of one of the Commissioners of Stamps and Taxes for the Time being, upon Proof made that such Certificate has been signed with the Handwriting of the Person certifying the same, whom it shall not be necessary to prove to be a Commissioner of Stamps and Taxes, shall be received in Evidence as Proof of the Contents of such Memorial, and Proof shall not be required that the Person by whom the Memorial shall purport to be verified was, at the Time of such Verification, the Manager or one of the Directors of the Company.

XX. And be it enacted, That the said Commissioners of Stamps and Taxes for the Time being shall, upon Application made to them by any Person or Persons requiring a Copy, certified according to this Act, of any such Account or Memorial as aforesaid, in order that the same may be produced in Evidence, or for any other Purpose, deliver to the Person or Persons so applying for the same such certified Copy, he, she, or they paying for the same the Sum of Ten Shillings and no more.

XXI. And be it enacted, That the Persons whose Names shall appear from Time to Time in the then last delivered Memorial,

and their legal Representatives, shall be liable to all legal Proceedings under this Act, as existing Shareholders of the Company, and shall be entitled to be reimbursed, as such existing Shareholders only, out of the Funds or Property of the Company, for all Losses sustained in consequence thereof.

XXII. And be it enacted, That all Bills of Exchange or Promissory Notes made, accepted, or endorsed on behalf of the said Company may be made, accepted, or endorsed (as the Case may be) in any Manner provided by the Deed of Partnership, so that they be signed by one of the Managers or Directors of the Company, and be by him expressed to be so made, accepted, or endorsed by him on behalf of such Company; Provided always, that nothing herein contained shall be deemed to make any such Manager or Director liable upon any such Bill of Exchange or Promissory Note to any greater Extent or in a different Manner than upon any other Contract signed by him on behalf of any such Company; and that every such Company, on whose Behalf any Bill of Exchange or Promissory Note shall be made, accepted, or endorsed in manner and form as aforesaid, may sue and be sued thereon as fully as in the Case of any Contract made and entered into under their Common Seal.

XXIII. And be it enacted, That, subject to the Regulations herein contained, and to the Provisions of the Deed of Settlement, every Shareholder may sell and transfer his Shares in the said Company by Deed duly stamped, in which the Consideration shall be truly stated; and such Deed may be according to the Form in the Schedule marked (C.) annexed to this Act, or to the like Effect; and the same (when duly executed) shall be delivered to the Secretary, and be kept by him; and the Secretary shall enter a Memorial thereof in a Book, to be called the 'Register of Transfers', and shall endorse such Entry on the Deed of Transfer, and for every such Entry and Endorsement the Company may demand any Sum not exceeding Two Shillings and Sixpence; and until such Transfer have been so delivered to the Secretary as aforesaid the Purchaser of the Share shall not be entitled to receive any Share of the Profits of the said Business, or to vote in respect of such Share.

XXIV. And be it enacted, That no Shareholder shall be entitled to transfer any Share until he shall have paid all Calls for the Time being due on every Share held by him.

XXV. And be it enacted, That the Directors may close the Register of Transfers for a Period not exceeding Fourteen Days previous to each Ordinary Meeting, and may fix a Day for the closing of the same, of which Seven Days Notice shall be given by Advertisement in some Newspaper as after mentioned; and any Transfer made during the Time when the Transfer Books are so closed shall, as between the Company and the Party claiming under the same, but not otherwise, be considered as made subsequently to such Ordinary Meeting.

XXVI. And with respect to the Registration of Shares the Interest in which may have become transmitted in consequence of the Death or Bankruptcy or Insolvency of any Shareholder, or in consequence of the Marriage of a Female Shareholder, or by any other legal Means than by a Transfer according to the Provisions of this Act, be it enacted, That no Person claiming by virtue of any such Transmission shall be entitled to receive any Share of the Profits of the said Business, or to vote in respect of any such Share as the Holder thereof, until such Transmission have been authenticated by a Declaration in Writing as herein-after mentioned, or in such other Manner as the Directors shall require; and every such Declaration shall state the Manner in which and the Party to whom such Share shall have been so transmitted, and shall be made and signed by some credible Person before a Justice of the Peace, or before a Master or Master Extraordinary in the High Court of Chancery; and such Declaration shall be left with the Secretary, and thereupon he shall enter the Name of the Person entitled under such Transmission in the Register Book of Shareholders of the Company; and for every such Entry the Company may demand any Sum not exceeding Two Shillings and Sixpence.

XXVII. And be it enacted, That if such Transmission be by virtue of the Marriage of a Female Shareholder, the said Declaration shall contain a Copy of the Register of such Marriage, or other Particulars of the Celebration thereof, and shall declare the

Identity of the Wife with the Holder of such Share; and if such Transmission have taken place by virtue of any testamentary Instrument, or by Intestacy, the Probate of the Will or Letters of Administration, or an official Extract therefrom, shall, together with such Declaration, be produced to the Secretary; and upon such Production, in either of the Cases aforesaid, the Secretary shall make an Entry of the Declaration in the said Register of Transfers.

XXVIII. And be it enacted, That with respect to any Share to which several Persons may be jointly entitled, all Notices directed to be given to the Shareholders shall be given to such of the said Persons whose Name shall stand first in the Register of Shareholders; and Notice so given shall be sufficient Notice to all the Proprietors of such Share.

XXIX. And be it enacted, That if any Money be payable to any Shareholder, being a Minor, Idiot, or Lunatic, the Receipt of the Guardian of such Minor, or the Receipt of the Committee of such Idiot or Lunatic, shall be a sufficient Discharge to the Company for the same.

XXX. And be it enacted, That the Company shall not be bound to see to the Execution of any Trust, whether express, implied, or constructive, to which any of the said Shares may be subject; and the Receipt of the Party in whose Name any such Share shall stand in the Books of the Company shall from Time to Time be a sufficient Discharge to the Company for any Dividend or other Sum of Money payable in respect of such Share, notwithstanding any Trusts to which such Share may then be subject, and whether or not the Company have had Notice of such Trusts; and the Company shall not be bound to see to the Application of the Money paid upon such Receipt.

XXXI. And be it enacted, That from Time to Time the Directors may make such Calls of Money upon the respective Shareholders, in respect of the Amount of Capital Stock respectively subscribed by them, as they shall think fit; and whenever Execution upon any Judgment against the Company shall have been taken out against any Shareholder, the Directors, within Twenty-one Days next after Notice shall have been served upon the Company of

the Payment of any Money by such Shareholder, his Executors or Administrators, in or toward Satisfaction of such Judgment, shall make such Calls upon all the Shareholders as will be sufficient to reimburse to such Shareholder, his Executors or Administrators, the Money so paid by him or them, and all his or their Damages, Costs, and Expences by reason of such Execution, and shall apply the proceeds of such Calls accordingly; and every Shareholder shall be liable to pay the Amount of every Call, in respect of the Shares held by him, to the Persons, and at the Times and Places, from Time to Time appointed by the Directors.

XXXII. And be it enacted, That if, before or on the Day appointed for Payment, any Shareholder do not pay the Amount of any Call to which he may be liable, then such Shareholder shall be liable to pay Interest for the same at the yearly Rate of Five Pounds in the Hundred from the Day appointed for the Payment thereof to the Time of the actual Payment.

XXXIII. And be it enacted, That if at the Time appointed by the Directors for the Payment of any Call the Holder of any Share fail to pay the Amount of such Call, the Company may sue such Shareholder for the Amount thereof in any Court of Law or Equity having competent Jurisdiction, and may recover the same, with Interest at the yearly Rate of Five Pounds in the Hundred from the Day on which such Call may have been payable.

XXXIV. And be it enacted, That in any Action to be brought by the Company against any Shareholder to recover any Money due for any Call it shall not be necessary to set forth the special Matter, but it shall be sufficient for the Company to declare that the Defendant is a Holder of One Share or more in the Company (stating the Number of Shares), and is indebted to the Company in the Sum of Money to which the Calls in arrear shall amount, in respect of One Call or more upon One Share or more (stating the Number and Amount of each of such Calls), whereby an Action hath accrued to the Company by virtue of this Act.

XXXV. And be it enacted, That on the Trial of such Action it shall not be necessary to prove the Appointment of the Directors who made such Call, or any other Matter, except that the Defendant at the Time of making such Call was a Holder of One

Share or more in the Company, and that such Call was in fact made, and such Notice thereof given, as is directed by this Act; and thereupon the Company shall be entitled to recover what shall be due upon such Call, with Interest thereon.

XXXVI. And be it enacted, That the Production of the Register Book of Shareholders of the Company shall be Evidence of such Defendant being a Shareholder, and of the Number and Amount of his Shares.

XXXVII. And be it enacted, That if the Holder of any Share fail to pay a Call payable by him in respect thereof, with the Interest, if any, that shall have accrued thereon, the Directors, at any Time after the Expiration of Six Calendar Months from the Day appointed for Payment of such Call, may declare such Share forfeited, and that whether the Company have sued for the Amount of such Call or not; but the Forfeiture of any such Share shall not relieve any Shareholder, his Executors or Administrators, from his and their Liability to pay the Calls made before such Forfeiture.

XXXVIII. And be it enacted, That before declaring any Share forfeited the Directors shall cause Notice of such Intention to be left at the usual or last Place of Abode of the Person appearing by the Register Book of Shareholders to be the Proprietor of such Share; and if the Holder of any such Share be not within the United Kingdom, or if the Interest in any such Share shall be known by the Directors to have become transmitted otherwise than by Transfer, as herein-before mentioned, but a Declaration of such Transmission shall not have been registered as aforesaid, and so the Address of the Parties to whom the same may have been transmitted shall not be known to the Directors, the Directors shall give public Notice of such Intention in the *London Gazette*; and the several Notices aforesaid shall be given Twenty-one Days at least before the Directors shall make such Declaration of Forfeiture.

XXXIX. And be it enacted, That such Declaration of Forfeiture shall not take effect, so as to authorize the Sale or other Disposition of any Share, until such Declaration have been confirmed at some General Meeting of the Company, to be held after the expiration of Two Calendar Months at least from the Day on

which such Notice of Intention to make such Declaration of Forfeiture shall have been given; and it shall be lawful for the Company to confirm such Forfeiture at any such Meeting, and by an Order at such Meeting, or at any subsequent General Meeting, to direct the Share so forfeited to be sold or otherwise disposed of; and after such Confirmation the Directors shall sell the forfeited Share, either by public Auction or private Contract, within Six Calendar Months next after the Confirmation of the Forfeiture, and if there be more than One such forfeited Share, then either separately or together, as to them shall seem fit; and any Shareholder may purchase any forfeited Share so sold.

XL. And be it enacted, That a Declaration in Writing by some credible Person not interested in the Matter, made before any Justice of the Peace, or before any Master or Master Extraordinary in the High Court of Chancery, that the Call in respect of a Share was made, and Notice thereof given, and that Default in Payment of the Call was made, and that the Forfeiture of the Share was declared and confirmed in manner herein-before required, shall be sufficient Evidence of the Facts therein stated; and such Declaration, and the Receipt of a Director or Manager of the Company for the Price of such Share, shall constitute a good Title to such Share, and thereupon such Purchaser shall be deemed the Holder of such Share discharged from all Calls made prior to such Purchase, and a Certificate of Proprietorship shall be delivered to such Purchaser, and he shall not be bound to see to the Application of the Purchase Money, nor shall his Title to such Share be affected by any Irregularity in the Proceedings in reference to any such Sale.

XLI. And be it enacted, That the Company shall not sell or transfer more of the Shares of any such Defaulter than will be sufficient, as nearly as can be ascertained at the Time of such Sale, to pay the Arrears then due from such Defaulter on account of any Calls, together with Interest, and the Expences attending such Sale and Declaration of Forfeiture; and if the Money produced by the Sale of any such forfeited Share be more than sufficient to pay all Arrears of Calls, and Interest thereon, due

at the Time of such Sale, and the Expences attending the Declaration of Forfeiture and Sale thereof, the Surplus shall, on Demand, be paid to the Defaulter.

XLII. And be it enacted, That if Payment of such Arrears of Calls, and Interest and Expences, be made before any Share so forfeited and vested in the Company shall have been sold, such Share shall revert to the Party to whom the same belonged before such Forfeiture, in such Manner as if such Calls had been duly paid.

XLIII. And be it enacted, That in all Cases wherein it may be necessary for any Person to serve any Notice, Writ, or other Proceeding at Law or in Equity, or otherwise, upon the Company, Service thereof respectively on the Manager or any Director for the Time being of the Company, by leaving the same at the principal Office of the Company, or, if the Company have suspended or discontinued Business, by serving the same personally on such Manager or Director, or by leaving the same with some Inmate at the usual or last Abode of such Manager or Director, shall be deemed good Service of the same on the Company.

XLIV. Provided always, and be it enacted, That every Company of more than Six Persons, for the Formation or Establishment of which Proceedings had been begun or taken before the Sixth Day of *May* last, and which before the Fourth Day of *July* then next following was registered at the Stamp Office, and on the Fourth Day of *July* actually carried on the said Trade or Business of Bankers in *England*, although under a Covenant or Agreement of Copartnership made or entered into on or after the Sixth Day of *May* last, may continue to carry on the said Trade or Business under any such Agreement or Covenant of Copartnership for any Time not exceeding Twelve Calendar Months next after the passing of this Act, in the same Manner in all respects as they legally might have done before the passing of this Act, and after the Expiration of the said Twelve Calendar Months, in case the Company shall not be incorporated under this Act, shall have, for the Purpose of closing their Trade or Business, but for no other Purpose, the same Powers and Privileges which they would have had if this Act had not been passed

XLV. And be it enacted, That it shall be lawful for any Company of more than Six Persons carrying on the Trade or Business of Bankers in *England* before the said Sixth Day of *May*, or any Company which by the Provision herein-before in that Behalf contained is enabled to carry on the said Trade or Business of Bankers in *England* for a Time not exceeding Twelve Calendar Months next after the passing of this Act, to present a Petition to Her Majesty, praying that Her Majesty will be pleased to grant to them Letters Patent under this Act; and if, upon the Compliance with the Provisions herein-before contained with respect to Companies formed after the said Sixth Day of *May*, Her Majesty shall be pleased to grant to them Letters Patent under this Act as aforesaid, it shall be lawful for them thereafter to carry on their Trade and Business of Bankers as aforesaid according to this Act, and not otherwise: Provided always, that a Majority of the Directors of any such Company for the Time being, with the Consent of Three Fourths in Number and Value of the Shareholders present at a General Meeting of the Company, to be specially called for the Purpose, may resolve to make any Alterations in the Constitution of such Company, or otherwise, which may be deemed necessary or expedient for enabling such Company to come within the Provisions of this Act; and the Majority of the Directors of such Company may, in pursuance of the Resolution of such Meeting as aforesaid, execute a new Deed of Partnership on behalf of such Company, and it shall not be necessary for such Deed to be executed by any other Shareholder of such Company; and it shall thereupon be lawful for such Company to present such Petition as aforesaid, and a Copy of such Resolution and of such new Deed of Partnership so executed by a Majority of the Directors of the Company as aforesaid shall be annexed to such Petition; and if Her Majesty shall thereupon grant Letters Patent to such Company under this Act, all the Shareholders of such Company at the Time of the Grant of such Letters Patent shall be deemed to be incorporated under such Letters Patent, and to be the first Shareholders in such incorporated Company; and the said new Deed of Partnership so executed by a Majority of the Directors as aforesaid shall have such and the same Effect, to

all Intents and Purposes, as if it had been executed by all the Shareholders.

XLVI. And be it enacted, That notwithstanding the Incorporation of any Company under this Act all Contracts and Agreements entered into by and with such Company shall continue in force as between such incorporated Company and the Parties with which the Company entered into such Contracts and Agreements before the Incorporation thereof, and may be enforced in like Manner as if the Company had been incorporated before the making of any such Contract or Agreement, and that no Suit at Law or in Equity by or against such Company shall be abated by reason of such Incorporation; but on the Application of either of the Parties to such Suit to the Court in which such Suit is pending, at any Time before Execution on any Judgment in such Suit shall have issued, it shall be lawful for the Court to order that the Corporate Name of such Company be entered on the Record, instead of the Name of the Plaintiff or Defendant representing such Company before the Incorporation thereof, and thereupon such Suit may be prosecuted and defended in the same Manner as if the same had been originally instituted by or against the said incorporated Company; and where Execution on any Judgment in such Suit shall have issued before such Application, Execution of such Judgment may be had as if such Company were not incorporated as if this Act had not been passed.

XLVII. And be it enacted, That after the passing of this Act every Company of more than Six Persons established on the said Sixth Day of *May* for the Purpose of carrying on the said Trade or Business of Bankers within the Distance of Sixty-five Miles from *London*, and not within the Provisions of this Act, shall have the same Powers and Privileges of suing and being sued in the Name of any one of the public Officers of such Copartnership as the nominal Plaintiff, Petitioner, or Defendant on behalf of such Copartnership; and that all Judgments, Decrees, and Orders made and obtained in any such Suit may be enforced in like Manner as is provided with respect to such Companies carrying on the said Trade or Business at any Place in *England* exceeding the Distance of Sixty-five Miles from *London* under the Pro-

visions of an Act passed in the Seventh Year of the Reign of King *George* the Fourth, intituled *An Act for the better regulating Copartnerships of certain Bankers in* England; *and for amending so much of an Act of the Thirty-ninth and Fortieth Years of the Reign of His late Majesty King* George *the Third, intituled, 'An 'Act for establishing an Agreement with the Governor and Company 'of the Bank of* England, *for advancing the Sum of Three Millions 'towards the Supply for the Service of the Year One thousand 'eight hundred', as relates to the same*; provided that such first-mentioned Company shall make out and deliver from Time to Time to the Commissioners of Stamps and Taxes the several Accounts or Returns required by the last-mentioned Act; and all the Provisions of the last-recited Act as to such Accounts or Returns shall be taken to apply to the Accounts or Returns so made out and delivered by such first-mentioned Companies, as if they had been originally included in the Provisions of the last-recited Act.

XLVIII. And be it declared and enacted, That every Company of more than Six Persons carrying on the Trade or Business of Bankers in *England* shall be deemed a Trading Company within the Provisions of an Act passed in this Session of Parliament, intituled *An Act for facilitating the winding up the Affairs of Joint Stock Companies unable to meet their pecuniary Engagements.*

XLIX. And be it enacted, That in this Act the following Words and Expressions shall have the several Meanings hereby assigned to them, unless there be something in the Subject or Context repugnant to such Construction; (that is to say,)

Words importing the Singular Number shall include the Plural Number, and Words importing the Plural Number shall include the Singular Number:

Words importing the Masculine Gender shall include Females:

The Word 'Plaintiff' shall include Pursuer and Petitioner:

The Word 'Defendant' shall include Defender and Respondent:

The Word 'Execution' shall include Diligence or other Proceeding proper for giving Effect to any Judgment, Decree, or Order of a Court of Justice.

L. And be it enacted, That this Act may be amended or repealed by any Act to be passed in this Session of Parliament.

SCHEDULES referred to by the foregoing Act.

SCHEDULE (A.)

MEMORIAL or Account to be entered at the Stamp Office in London in pursuance of an Act passed in the Eighth Year of the Reign of Queen Victoria, intituled (*here insert the Title of this Act*); viz.

Firm or Name of the Banking Company; viz. (*set forth the Firm or Name.*)

Names and Places of Abode of all the Members of the Company; viz. (*set forth all the Names and Places of Abode.*)

Names and Places of the Bank or Banks established by such Company; viz. (*set forth all the Names and Places.*)

Names and Places of Abode of the Directors, Managers, and other like Officers of the said Banking Company; viz. (*set forth all the Names and Places of Abode.*)

Names of the several Towns and Places where the Business of the said Company is to be carried on; viz. (*set forth the Names of all the Towns and Places.*)

A. B. of Manager, (*or other Officer, describing the Office*) of the above-mentioned Company, maketh Oath and saith, That the above-written Account doth contain the Name, Style, and Firm of the said Company, and the Names and Places of the Abode of the several Members thereof, and of the Banks established by the said Company, and the Names, Titles, and Descriptions of the Directors, Managers, and other like Officers of the said Company, and the Names of the Towns and Places where the Business of the Company is carried on, as the same respectively appear in the Books of the said Company, and to the best of the Information, Knowledge, and Belief of this Deponent.

Sworn before me, the Day of at in the County of

C. D., Justice of the Peace in and for the County of
(*or* Master *or* Master Extraordinary in Chancery.)

SCHEDULE (B.)

MEMORIAL or Account to be entered at the Stamp Office in London on behalf of (*Name of the Company*) in pursuance of an Act passed in the Eighth Year of the Reign of Queen Victoria, intituled (*insert the Title of this Act*); viz.

Names and Places of Abode of every new or additional Director, Manager, or other like Officer of the said Company; viz. *A. B.*

in the Room of *C. D.*, deceased *or* removed, (*as the Case may be;*) (*set forth every Name and Place of Abode.*)

Names and Places of Abode of every Person who has ceased to be a Member of such Company; viz. (*set forth every Name and Place of Abode.*)

Names and Places of Abode of every Person who has become a new Member of such Company; viz. (*set forth every Name and Place of Abode.*)

Names of any additional Towns and Places where the Business of the Company is carried on; viz. (*set forth the Names of all the Towns and Places.*)

A. B. of Manager (*or other Officer*) of the above-named Company, maketh Oath and saith, That the above-written Account doth contain the Name and Place of Abode of every Person who hath become or been appointed a Director, Manager, or other like Officer of the above Company, and also the Name and Place of Abode of any and every Person who hath ceased to be a Member of the said Company, and of every Person who hath become a Member of the said Company since the Registry of the said Company on the Day of last, as the same respectively appear on the Books of the said Company, and to the best of the Information, Knowledge, and Belief of this Deponent.

Sworn before me, the Day of at in the County of .

C. D., Justice of the Peace in and for the County of
(*or* Master *or* Master Extraordinary in Chancery).

SCHEDULE (C.)

Form of Transfer of Shares.

I of in consideration of the Sum of paid to me by of do hereby transfer to the said Share (*or* Shares) numbered in the Business called 'The Banking Company', to hold unto the said his Executors, Administrators, and Assigns (*or* Successors and Assigns), subject to the several Conditions on which I held the same at the Time of the Execution hereof. And I the said do hereby agree to take the said Share (*or* Shares), subject to the same Conditions. As witness our Hands and Seals, the Day of

20 & 21 VICT. c. 49

An Act to amend the Law relating to Banking Companies (17th *August* 1857)

Whereas it is expedient to amend the Law relating to Copartnerships and Companies carrying on the Business of Banking, and herein-after included under the Term Banking Companies: Be it enacted by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, as follows:

Preliminary.

I. This Act may be cited for all Purposes as 'The Joint Stock Banking Companies Act, 1857'.

II. The Joint Stock Companies Acts, 1856, 1857, shall be deemed to be incorporated with and to form Part of this Act.

Registration of existing Banking Companies.

III. The Second Section of the Joint Stock Companies Act, 1856, shall be repealed so far as relates to Persons associated together for the Purpose of Banking, subject to this Proviso, that no existing or future Banking Company shall be registered as a Limited Company.

IV. Every Banking Company consisting of Seven or more Persons, and formed under the Acts following, or either of them, that is to say,

(1) An Act passed in the Eighth Year of the Reign of Her present Majesty, Chapter One hundred and thirteen, and intituled *An Act to regulate Joint Stock Banks in* England.

(2) An Act passed in the Tenth Year of the Reign of Her present Majesty, Chapter Seventy-five, and intituled *An Act to regulate Joint Stock Banks in* Scotland *and* Ireland,

shall, on or before the First Day of January, One thousand eight hundred and fifty-eight, register itself as a Company under this Act.

V. If any Banking Company hereby required to register under this Act makes default in registering on or before the said First Day of *January* One thousand eight hundred and fifty-eight, then, from and after such Day, until the Day on which such Company is registered under this Act, the following Consequences shall ensue; (that is to say,)

(1) The Company shall be incapable of suing either at Law or in Equity, but shall not be incapable of being made a Defendant to a Suit either at Law or in Equity:

(2) No Dividend shall be payable to any Shareholder in such Company:

(3) Each Director or Manager of the Company shall for each Day during which the Company is in default incur a Penalty of Five Pounds, and such Penalty may be recovered by any Person, whether a Shareholder or not in the Company, and be applied by him to his own use:

Nevertheless such Default shall not render the Company so being in default illegal, nor subject it to any Penalty or Disability, other than as specified in this Section.

VI. Any Banking Company, consisting of Seven or more Persons, having a Capital of fixed Amount and divided into Shares also of fixed Amount, legally carrying on the Business of Banking previously to the passing of this Act, and not being a Company hereby required to be registered, may at any Time hereafter, with the Assent of a Majority of such of its Shareholders as may have been present in Person, or in Cases where Proxies are allowed by the Regulations of the Company, by Proxy, at some General Meeting summoned for the Purpose, register itself as a Company other than a Limited Company under this Act, and when so registered all such Provisions contained in any Act of Parliament, Letters Patent, or Deed of Settlement constituting or regulating the Company, as are inconsistent with the Joint Stock Companies Acts, 1856, 1857, or with this Act, shall no longer apply to the Company so registered; but such Registration shall not take away or affect any Powers previously enjoyed by such Company of Banking, issuing Notes payable on Demand, or of doing any other Thing.

VII. No Fees shall be payable in respect of the Registration under this Act of any Banking Company existing at the Time of the passing of this Act.

VIII. The Registration under this Act of any Banking Company existing at the Time of the passing of this Act, and hereby required or authorized to be registered, shall not affect or prejudice the Liability of such Company to have enforced against it or its Right to enforce any Debt or Obligation incurred, or any Contract entered into by, to, with, or on account of such Company, previously to such Registration, and all such Debts, Obligations, and Contracts shall be binding on the Company when so registered, and the other Parties thereto, to the same Extent as if such Registration had not taken place.

IX. Every Person who at or previously to the Date of the Registration under this Act of any Banking Company hereby required or authorized to be registered may have held Shares in such Company shall, in the event of the same being wound up by the Court or voluntarily, be liable to contribute to the Assets of the Company the same Amount that he would if this Act had not been passed have been liable to pay to the Company, or for or on account of any Debt of the Company in pursuance of any Action, Suit, Judgment, or other legal Proceeding that might, if this Act had not been passed, have been instituted or enforced against himself or the Company.

X. All such Actions, Suits, and other legal Proceedings as may at the Time of the Registration under this Act of any Company hereby required or authorized to be registered have been commenced by or against such Company or the Public Officer thereof may be continued in the same Manner as if such Registration had not taken place; nevertheless Execution shall not issue against the Effects of any individual Shareholder in or Member of such Company upon any Judgment, Decree, or Order obtained against such Company in any Action, Suit, or Proceeding so commenced as aforesaid; but, in the event of the Property and Effects of the Company being insufficient to satisfy such Judgment, Decree, or Order, an Order may be obtained for winding up the Company in manner directed by the Joint Stock Companies Acts, 1856, 1857.

Winding up of the Banking Companies.

XI. The following Acts, that is to say,

(1) The Act of the Eleventh Year of the Reign of Her present Majesty, Chapter Forty-five,

(2) The Act of the Thirteenth Year of the Reign of Her present Majesty, Chapter One hundred and eight,

(3) The Act of the Eighth Year of the Reign of Her present Majesty, Chapter One hundred and eleven,

(4) The Act of the Ninth Year of the Reign of Her present Majesty, Chapter Ninety-eight,

shall not apply to Companies registered under this Act or under the Acts incorporated herewith or either of them; and all Companies so registered shall be wound up in Manner directed by the said incorporated Acts.

Repeal.

XII. The above-mentioned Acts, that is to say,

The said Acts passed in the Eighth Year of the Reign of Her present Majesty, Chapter One hundred and thirteen, and

The said Act passed in the Tenth Year of the Reign of Her present Majesty, Chapter Seventy-five,

shall forthwith be repealed as respects any Banking Company to be formed hereafter, and shall, from and after such Time as any Company formed in pursuance of such Acts or either of them may have registered as a Company under this Act, but not before, be repealed as respects the Company so registered; and the Articles of Table B. in the Schedule annexed to the Joint Stock Companies Act, 1856, relating to ' Shares ', to ' Transmission of Shares ', and to ' Forfeiture of Shares ', and numbered from One to Nineteen, both inclusive, shall, from and after such Time as last aforesaid, but subject to the Power of Alteration conferred by the Joint Stock Companies Acts, 1856, 1857, be deemed to be Regulations of any Company formed in pursuance of the said Acts passed in the Eighth and Tenth Years of Her present Majesty; nevertheless such Repeal shall not affect any Penalty, Forfeiture, or other Punishment incurred or to be incurred in respect of any Offence against any Acts hereby repealed com-

mitted before such Repeal comes into operation; and notwithstanding anything contained in the said Act of the Eighth Year of the Reign of Her present Majesty, Chapter One hundred and thirteen, or in any other Act, it shall be lawful for any Number of Persons, not exceeding Ten, to carry on in Partnership the Business of Banking in the same Manner and upon the same Conditions in all respects as any Company, if not more than Six Persons, could before the passing of this Act have carried on such Business.

Formation of new Banking Companies.

XIII. Seven or more Persons associated for the Purpose of Banking may register themselves under this Act as a Company other than a Limited Company, subject to this Condition, that the Shares into which the Capital of the Company is divided shall not be of less Amount than One hundred Pounds each; but not more than Ten Persons shall after the passing of this Act, unless registered as a Company under this Act, form themselves into a Partnership for the Purpose of Banking, or if so formed carry on the Business of Banking.

Examination of Affairs in Company.

XIV. No Appointment of Inspectors to examine into the Affairs of any Banking Company shall be made by the Board of Trade, in pursuance of the Joint Stock Companies Act, 1856, except upon the Application of One Third at the least in Number and Value of the Shareholders in such Company.

Nineteenth Section of Joint Stock Companies Act not to apply.

XV. The Nineteenth Section of the Joint Stock Companies Act, 1856, shall not apply to any Banking Company in *Scotland* registered under this Act.

Transfer of Trust Property.

XVI. All such Estate or Interest in Real and Personal Property in *England* and *Ireland*, and in Property, Heritable and Moveable, in *Scotland*, and all such Deeds, Bonds, Obligations, and Rights as may belong to or be vested in any Person or Persons in trust

for any Banking Company at the Date of its Registration under this Act, or in trust for any other Company at the Date of its Registration under the Joint Stock Companies Acts, 1856, 1857, shall immediately on Registration vest in such Banking or other Company; but no Merger shall take place of any Estates by reason of their uniting in the Company under this Section, without the express Consent of the Company, certified by some Instrument under their Common Seal.

Banking Companies not registered as such.

XVII. If, through Inadvertence or otherwise, a Company that is in fact a Banking Company has, previously to the passing of this Act, been registered as a Limited Company under the Joint Stock Companies Act, 1856, or if, through Inadvertence or otherwise, a Company that is in fact a Banking Company is hereafter registered under the said Joint Stock Companies Acts, 1856, 1857, as a Limited Company, any Company so registered shall not be illegal, nor shall the Registration thereof be invalid, but it shall be subject to the following Liabilities; that is to say,

(1) Any Creditor or Member of the Company may petition the Company to have it wound up, and the Fact of its being registered as a Limited Company shall of itself be a sufficient Circumstance on which an Order shall be made for winding up the same:

(2) In the event of such Company being wound up the Contributories shall, whether the Company is or not registered as a Limited Company, be liable to contribute to the Assets of the Company to an Amount sufficient to pay its Debts, and the Costs, Charges, and Expenses of winding up the same.

Saving Clauses.

XVIII. The Joint Stock Companies Acts, 1856, 1857, shall not apply to any Banking Company legally carrying on the Business of Banking previously to the passing of this Act, and not hereby required to be registered, until such Time as such Company registers itself under this Act, in pursuance of the Power hereby given in that Behalf.

XIX. Nothing herein contained shall affect an Act passed in the Eighth Year of the Reign of Her present Majesty, and intituled

An Act to regulate the Issue of Bank Notes, and for giving to the Governor and Company of the Bank of England *certain Privileges for a limited Period*, or an Act passed in the Ninth Year of the Reign of Her present Majesty, Chapter Thirty-eight, intituled *An Act to regulate the Issue of Bank Notes in* Scotland, or any other Act relating to the Issue or Circulation of Bank Notes.

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21 & 22 VICT. c. 91

An Act to enable Joint Stock Banking Companies to be formed on the Principle of Limited Liability (2nd *August* 1858).

Whereas it is expedient to enable Banking Companies to be formed on the Principle of Limited Liability: Be it enacted, by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, as follows:

I. So much of the Joint Stock Banking Companies Act, 1857, as prohibits a Banking Company from being formed under that Act with limited Liability, or prohibits an existing Banking Company from being registered under that Act with limited Liability, shall be repealed, subject to the following Proviso, that no Banking Company claiming to issue Notes in the United Kingdom shall be entitled to limited Liability in respect of such Issue, but shall continue subject to unlimited Liability in respect thereof, and that, if necessary, the Assets shall be marshalled for the Benefit of the general Creditors, and the Shareholders shall be liable for the whole Amount of the Issue, in addition to the Sum for which they would be liable as Shareholders of a Limited Company.

II. The Registration of a Banking Company under the Joint Stock Banking Companies Act, 1857, or under any other Act, shall not prejudice the Right of such Company to register itself again as a Limited Company under the said Joint Stock Banking Companies Act, 1857, and the Acts incorporated therewith.

III. Provided, That every Company so registering itself again as a Limited Company, and every existing Banking Company which shall register itself as a Limited Banking Company, shall, at least Thirty Days previous to obtaining a Certificate of Registration with Limited Liability, give Notice that it is intended so to register the same to every Person and Partnership Firm who shall have a Banking Account with the Company, and such Notice shall be given either by delivering the same to such Person or Firm, or leaving the same or putting the same into the Post addressed to him or them at such Address as shall have been last communicated or otherwise become known as his or their Address to or by the Company; and in case the Company shall omit to give any such Notice as is herein-before required to be given, then as between the Company and the Person or Persons only who are for the Time being interested in the Account in respect of which such Notice ought to have been given, and so far as respects such Account and all Variations thereof down to the Time at which such Notice shall be given, but not further or otherwise, the Certificate of Registration with Limited Liability shall have no operation.

IV. Every Limited Joint Stock Banking Company shall, before it commences Business, or, if a Banking Company at the Time carrying on Business with unlimited Liability, before it avails itself of the Provisions of this Act, and also on the First Day of *February* and First Day of *August* in every Year during which it carries on Business, make a Statement in the Form contained in the Schedule hereto, or as near thereto as Circumstances will admit, and a Copy of such Statement shall be put up in a conspicuous Place in the registered Office of the Company, and in every Branch Office or Place where the Banking Business of the Company is carried on; and if Default is made in due Compliance with the Provisions of this Section, each Director shall be liable to a Penalty not exceeding Five Pounds for every Day during which such Default continues, and such Penalties shall be recovered in a summary Manner.

V. Limited Joint Stock Banking Companies shall be wound up in the same Manner and under the same Jurisdiction as that in

and under which Joint Stock Banking Companies other than Limited are required to be wound up by the Joint Stock Banking Companies Act, 1857.

SCHEDULE referred to in the foregoing Act.

Form of Statement to be published by a Limited Joint Stock Banking Company.

The Liability of the Shareholders is limited.

The Capital of the Company is One million, divided into Ten thousand Shares of One hundred Pounds each.

The Number of Shares issued is Ten thousand.

Calls to the Amount of Twenty Pounds per Share have been made, under which the Sum of One hundred and eighty thousand Pounds has been received.

The Liabilities of the Company on the First Day of January (*or* July) were:

	£	s.	d.
Notes issued			
Deposits not bearing Interest			
Deposits bearing Interest			
Seven Day and other Bills			
Total			

The Assets of the Company on that Day were:

	£	s.	d.
Government Securities			
Bills of Exchange			
Loans on Mortgage			
Other Loans			
Bank Premises			
Other Securities, exclusive of unpaid Calls on Shares			
Total			

Dated the First Day of February *or* August One thousand eight hundred and fifty-nine.

25 & 26 VICT. c. 89

(*Sections relating to Banking Companies.*)

An Act for the Incorporation, Regulation, and Winding-up of Trading Companies and other Associations. (7th *August* 1862.)

Preliminary.

4. No Company, Association, or Partnership consisting of more than Ten Persons shall be formed, after the Commencement of this Act, for the Purpose of carrying on the Business of Banking, unless it is registered as a Company under this Act, or is formed in pursuance of some other Act of Parliament, or of Letters Patent; and no Company, Association, or Partnership consisting of more than Twenty Persons shall be formed, after the Commencement of this Act, for the Purpose of carrying on any other Business that has for its Object the Acquisition of Gain by the Company, Association, or Partnership, or by the individual Members thereof, unless it is registered as a Company under this Act, or is formed in pursuance of some other Act of Parliament, or of Letters Patent, or is a Company engaged in working Mines within and subject to the Jurisdiction of the Stannaries.

Part III.

Management and Administration of Companies and Associations under this Act.

44. Every Limited Banking Company and every Insurance Company, and Deposit, Provident, or Benefit Society under this Act shall, before it commences Business, and also on the First *Monday* in *February* and the First *Monday* in *August* in every Year during which it carries on Business, make a Statement in the Form marked D. in the First Schedule hereto, or as near thereto as Circumstances will admit, and a Copy of such Statement shall be put up in a conspicuous Place in the registered Office of the Company, and in every Branch Office or Place where the Business of the Company is carried on, and if Default is made in com-

pliance with the Provisions of this Section the Company shall be liable to a Penalty not exceeding Five Pounds for every Day during which such Default continues, and every Director and Manager of the Company who shall knowingly and wilfully authorize or permit such Default shall incur the like Penalty.

Every Member and every Creditor of the Company mentioned in this Section shall be entitled to a Copy of the above-mentioned Statement on Payment of a Sum not exceeding Sixpence.

. . . . . .

56. The Board of Trade may appoint One or more competent Inspectors to examine into the Affairs of any Company under this Act, and to report thereon, in such Manner as the Board may direct, upon the Applications following; (that is to say,)

(1) In the Case of a Banking Company that has a Capital divided into Shares, upon the Application of Members holding not less than One Third Part of the whole Shares of the Company for the Time being issued:

(2) . . .

(3) . . .

. . . . . .

PART VI.

Application of Act to Companies registered under the Joint Stock Companies Acts.

175. The Expression 'Joint Stock Companies Acts' as used in this Act shall mean 'The Joint Stock Companies Act, 1856', 'The Joint Stock Companies Acts, 1856, 1857', 'The Joint Stock Banking Companies Act, 1857', and 'The Act to enable Joint Stock Banking Companies to be formed on the Principle of Limited Liability', or any One or more of such Acts, as the Case may require; but shall not include the Act passed in the Eighth Year of the Reign of Her present Majesty, Chapter One hundred and ten, and intituled *An Act for the Registration, Incorporation, and Regulation of Joint Stock Companies.*

Part VII.

Companies authorized to register under this Act.

182. No Banking Company claiming to issue Notes in the United Kingdom shall be entitled to Limited Liability in respect of such Issue, but shall continue subject to Unlimited Liability in respect thereof, and, if necessary, the Assets shall be marshalled for the Benefit of the general Creditors, and the Members shall be liable for the whole Amount of the Issue, in addition to the Sum for which they would be liable as Members of a Limited Company.

. . . . . .

188. Every Banking Company existing at the Date of the passing of this Act which registers itself as a Limited Company shall, at least Thirty Days previous to obtaining a Certificate of Registration with Limited Liability, give Notice that it is intended so to register the same to every Person and Partnership Firm who have a Banking Account with the Company, and such Notice shall be given either by delivering the same to such Person or Firm, or leaving the same or putting the same into the Post addressed to him or them at such Address as shall have been last communicated or otherwise become known as his or their Address to or by the Company; and in case the Company omits to give any such Notice as is herein-before required to be given, then as between the Company and the Person or Persons only who are for the Time being interested in the Account in respect of which such Notice ought to have been given, and so far as respects such Account and all Variations thereof down to the Time at which such Notice shall be given, but not further or otherwise, the Certificate of Registration with Limited Liability shall have no Operation.

FIRST SCHEDULE.

Form D.

Form of Statement referred to in Part III of the Act.

* The Capital of this Company is , divided into Shares of each.

The Number of Shares issued is .

* If the Company has no Capital divided into Shares the Portion of the Statement relating to Capital and Shares must be omitted.

Calls to the Amount of Pounds per Share have been made, under which the Sum of Pounds has been received.

The Liabilities of the Company on the First Day of January (*or* July) were,—

Debts owing to sundry Persons by the Company:
On Judgment, £
On Specialty, £
On Notes or Bills, £
On Simple Contracts, £
On estimated Liabilities, £

The Assets of the Company on that Day were,—
Government Securities (*stating them*), £
Bills of Exchange and Promissory Notes, £
Cash at the Bankers, £
Other Securities, £

THE LAST INQUIRY INTO PRIVATE NOTE ISSUES, 1875

BANK ACCEPTANCES

Evidence of WILLIAM HAMILTON CRAKE, Esq., before the Select Committee of the House of Commons on Banks of Issue, 1875.

(Mr. Chancellor of the Exchequer in the chair.)

(Parliamentary Papers, 1875, vol. ix.)

8th July 1875.

7300. (*Sir John Lubbock*) You are a Director of the London and Westminster Bank, are you not?—I am.

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7315. We have heard a good deal to-day with reference to Scotch bank acceptances; in the course of your business I presume that you have frequently seen acceptances of Scotch banks?—Frequently.

7316. And they have increased very largely, have they not, since the Scotch banks have come to England?—Yes, they have increased very largely within the last seven or eight years, especially in the case of those Scotch banks which have come to London.

7317. Without questioning the caution which has been exercised by the Scotch banks in the selection of those to whom they have

given those credits, do you consider that a large acceptance business is a business of a character which it is desirable that an ordinary banker should undertake?—In my opinion it pertains more to commercial than to banking business.

7318. Does the London and Westminster Bank accept largely?—The London and Westminster Bank, like all other banks doing business in London, can hardly escape accepting to a certain extent, but the London and Westminster Bank avoids it to the utmost of its ability. Many accounts of great value are refused, simply on the ground that they would involve foreign acceptances.

7319. I believe that the Bank of England accepts very little, if at all?—I believe that the Bank of England does not accept at all, except in the case of the bank post bills.

7320. Will you state why you think it undesirable that a banker doing a large deposit business should accept largely bills drawn from abroad?—Speaking for the London and Westminster Bank we hold that the public entrust us with large deposits and large funds, and that the security of our property should be here on the spot, and not broadcast over the world; that our credit and our funds should be available here, and not made use of as it were by granting a double credit in foreign and colonial countries, either in India, or Australia, or America, or wherever it may be. We hold that the depositors have a right to look for the proceeds of their property entrusted to us being on the spot, and not used abroad.

7321. I presume that that applies with still greater force to an issuing bank, does it not?—Clearly. The issue, especially in a country like Scotland, where the public have no option but to take the notes of the issuing banks, only enhances the objection that I have already stated; not only the depositors, but the noteholders in Scotland are subject to this, which we consider a blemish in banking.

7322. That class of business is, in your opinion, entirely appropriate for such a bank as the Bank of Montreal or the Oriental Bank, or any Colonial bank of that character, but not for an English depository bank?—The banks to which you refer were raised and formed for the conduct of business in their own special

branches, and they have the requisite knowledge and acquaintance, and they do not acquire to themselves the amount of deposits here on the terms that we do, that is to say, deposits payable on short terms or on demand. Those banks are in a totally different position, nor has any one of them an issue in this country.

7323. You have heard the evidence which has been given by Mr. Davidson, but notwithstanding that the Scotch banks may have exercised every care and caution in the business, you think that it is desirable that that class of business should be kept separate from ordinary banking business?—Such is my opinion.

7324. Of course in accepting bills the bank which accepts undertakes the liability of meeting those bills at maturity, whether it receives remittances or not?—Clearly.

7325. If from any cause remittances do not come from abroad, of course the bank accepting would have to meet the bills?—It seems to me that, granting credits abroad by a bank receiving deposits in England, is really equivalent to the bank using its credit twice.

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7366. (*Mr. Orr Ewing*) Does the London and Westminster Bank accept any foreign bills?—As I said in my evidence in chief, it is impossible for us absolutely to avoid it, but we set our faces as much against it as possible.

7367. May I ask you what are your acceptances at present?—They have not varied very much for some years past. In our last accounts published the acceptances were separately stated, and are just £1,000,000; I cannot tell you within a few thousands, but they would be about the same now.

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7374. Is the extent of your credits included in the £1,000,000 which you have mentioned?—Yes; they are not mercantile credits as a rule.

7375. To what kind of houses do you grant them?—They are mainly for other banks. We cannot refuse to accept on account of a bank.

7376. But you do not accept for any bank out of this country, do

you?—No; there are a large volume of short bills, drafts as we call them, of 14 and 21 days' date, mainly from Scotland.

7377. But I am speaking of foreign bills of exchange?—We do not profess to go into that business, and we avoid it to the best of our ability. We have refused many very valuable accounts because they would involve that description of business.

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7417. (*Mr. Norwood*) You lay a good deal of stress upon the difference of position between the bank which is allowed to issue notes and the bank which is not allowed to issue notes; do you think that there is really very much difference in the liability to a holder of a note and to a depositor in a bank?—I think that the holder of a note, such as a Scotch note, holds it on the credit of the bank on the spot; he does it on the credit of its fund, and so forth, and the depositor does the same, and my argument is, that the use of that credit for acquiring those deposits, and the issue of those notes, if supplemented by foreign acceptances, is a double use of the credit of the bank.

SINGLE OR MULTIPLE ISSUES

Evidence of WALTER BAGEHOT, Esq., before the Select Committee of the House of Commons on Banks of Issue, 1875.

(Mr. Chancellor of the Exchequer in the chair.)

(Parliamentary Papers, 1875, vol. ix.)

22nd July 1875.

7964. (*Chairman*) I think you are a Director of Stuckey's Bank?—I am.

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7966. . . . Do you consider that it is desirable that there should be one single system of banking applied to the whole of the United Kingdom, or that there should be distinctions between the banking systems and the privileges given to bankers in different portions of the United Kingdom?—I should certainly think it desirable, if we were starting *de novo*, that there should be one uniform system. Probably there would hardly be two opinions

about it. If we were commencing in a new world, all banks, I suppose, should be put upon an equality, but I do not know how far that would be exactly possible under the present state of things. The Scotch system, and also the Irish system, are so extremely different from anything that prevails in England, that it would require almost a revolution to reduce them to an English level, or to raise us to the Scotch and Irish level, and I hardly know how it could be done.

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7970. If you were now attempting to apply one system to the whole of the country, do you think that the Scotch system would be one which would work well?—Not only are there differences between the English system and the Scotch system as to note issue, but there are differences as to the rate of interest and as to charges. As to banking only, as apart from issue, I do not myself think that it is reasonable that there should be one single and uniform system of banking (using the word banking in the strictest sense) through a large country like England. A single and uniform system appears to have grown up in Scotland, which may be right there; but I do not think that it is at all natural or reasonable that there should be one system in such a county as Somersetshire, and exactly the same system in Lancashire; Somersetshire is an accumulating district where we have more money than we can employ, and Lancashire is a great employing and borrowing district where they have less money than they can employ; and, therefore, it is reasonable that in Lancashire the banks should offer more for money, and also that they should charge higher rates for money than we do in Somersetshire. The notion of having one uniform rate pervading England appears to me to be unwise, and I should be sorry to see it introduced. If you ask me whether the Scotch system would be universally applicable in England, I should answer that question by seeing how it would be applied to the Bank of England; I should think that there it would produce some very dangerous results. Owing to a most curious sequence of historical events the Bank of England holds in its banking department the cash reserve for the whole of the banks of the country. If you applied to the banking department of the Bank of England the Scotch system of giving

interest on running accounts, I do not think that the Bank of England would be able to keep so large a reserve as we should all wish it to keep, and as it is necessary for the Scotch system that it should keep; I should, therefore, contend that the Scotch system was not universally applicable to the whole country. Of course, I am not saying that that is a reason why it should be kept out by law, but I think that if it were fairly tried it would be found to be unfit in certain cases.

7971. With regard to questions which are of a purely banking character, such as the question of the rate of interest that should be given, or whether interest should be allowed upon running accounts, and so forth, those are matters with which this Committee have nothing to do; we have to consider rather the bearing of the restrictions imposed upon banks in consideration of their having privileges of issue; do you think that it would be right to put all banks throughout the United Kingdom on the same footing with regard to the privilege of issue?—Of course there are certain banks which have inherited the privilege of issue, and certain others which have not, and, as far as England is concerned, I am not aware what object would be attained by depriving of that privilege those banks which already possess it. I admit that if you started *de novo*, no one would think of establishing differences between one bank and another; but nothing in England has grown up according to mathematical regularity, or is it usually at all like what anybody would make it now; and it is the general course of English legislation not to abolish anything which you can find to be doing good, and which you do not see to be doing harm; or if you find it to be doing harm, to try to mitigate that harm rather than to abolish the thing itself without consideration, subject to the risk that the good which it was doing would no longer be done.

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7977. Some evidence has been given before this Committee by gentlemen who have appeared on behalf of the Scotch banks, to the effect that the system of banking in Scotland is very much more advantageous to the public than the system of banking in England, and that opinion has been supported by calculations

founded upon the returns which are published in the annual *resumé* of the 'Economist' newspaper. What bearing do you consider that the accounts published in the 'Economist' newspaper has upon this question?—I have seen the calculation which has been put in by Mr. Gairdner; it is founded on the principle that you should test a system of banking by the percentage which it pays on its cash deposits; and he refers to a table of such percentages calculated in a certain way (with which I need not trouble the Committee), which was given in the 'Economist', in the case of the London banks and in the case of the Scotch banks. But I wish to observe to the Committee that any calculation founded upon cash deposits will produce very safe results when you are comparing banks in which the cash deposits are the main means of making profit, but that it will produce very unsafe results if you apply it to banks in which those cash deposits are not the great source of income, but in which their income is derived from other means. It is very obvious that in the case of a bank doing an exchange business, as so many Indian banks do, if you applied the test of cash deposit there, you might bring out very absurd results, because the profit is not produced by the cash deposits. Still more, if you applied the test of cash deposits to such banks as the Anglo-Austrian Bank, which have hardly any deposits at all, but which are banks employing their own capital in developing the resources of foreign countries, you would arrive at what may fairly be termed nonsense; no table constructed in that way will present any real facts at all. With respect to the case of the banks to which it has been applied before this Committee, I think that that doctrine to some extent applies, because we know that many banks in the north of England charge a high commission, which is a separate and distinct source of profit from the interest upon cash deposits, and also that they re-discount very largely. I do not know as to any particular banks in existence, because it is not disclosed in the published accounts; but I will take the case of the Borough Bank of Liverpool. At the time of its failure, it had £1,000,000 of deposits in round numbers, and £3,500,000 of bills re-discounted, and a short time before I believe it had £5,000,000. It is obvious that when you have a great source of profit like re-discount, no calculation

founded on cash deposits can produce any sound results at all. The test of cash deposits applies when the cash deposits are the main means of making profit to the bank, but not in any other case.

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7980. You would not think it desirable either to take away the right of issue from those banks which now have it, or to extend the right of issue to those banks which have it not?—As a political economist, I should be rather in favour of extending it, upon security to all banks. In theory, what I should lay down would be this; that you ought, with respect to a note like the Bank of England note which the Government makes legal tender, to take the utmost care that it should be convertible instantaneously, and with absolute certainty. Unless that is done, the whole exchange business of the country will be destroyed. It is absolutely necessary that if a man draws a bill in England for £5,000, he shall know what he would get for the £5,000, that he shall not be put off with any paper, but that he shall know that he can get 5,000 sovereigns quite certainly, without a fraction of difference. If there is the slightest difference between the legal tender and the sovereign, he cannot, of course, be so sure. But with respect to anything which is not legal tender, I myself think, as a political economist, that it would be quite sufficient if something like the system which prevails in America were adopted, and if banks were allowed to deposit stock, and possibly a proportion of coin or bullion, as a security for their issues. Supposing that the question were open for theoretical discussion, I should propose that.

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7982. You would think it a misfortune if the provincial issues were altogether absorbed into a national system of issue?—I should think so. I am prepared to show, I think, that the banks at present do a certain work which will not be done if they are abolished, and that the public will be put to a certain amount of inconvenience. I am not prepared to say of ruinous inconvenience to the whole nation, but to a great amount of inconvenience to small persons.

7983. Will you explain in what way you think that it would be an inconvenience?—I do not know that I can do that better than by

summarising a paper which I drew up for Mr. Seebohm in answer to some inquiries which he made of me as to our practice in Somersetshire. I should say that the business which I am going to speak of must not be hardly judged because it is minute; its minuteness is exactly what constitutes its importance, because those minute transactions are very numerous, and because they affect very small persons. The mode in which the country issues are of use to the public in Somersetshire is this: there are there a very large number of dairymen and other small holders of land, who sell their produce to dealers in London, and in the large towns; they are paid by cheques on those towns, for which the country banker gives his own notes to them without charge. If you abolished the country-bank note circulation, all that would be taxed; all that petty dealing would immediately be subject to a kind of impost; and supposing that the Bank of England were to attempt to do that sort of business, they would have to establish banks all over the country to do it. Then again, there is a still poorer class of people who deal in willows and osiers in the poorest parts of the country; they sell the produce of their labour to 'withy merchants', as we call them; they receive the cheque of the withy merchant, who lives, perhaps, at a distance; we cash that cheque without the slightest charge, and they take home our own notes. It is in that way that the notes are issued. But we should, of course, not do that without a considerable charge, supposing that the issue were taken away from us. Small farmers, stock dealers, and butchers, and all those kind of people, in a way which it is impossible completely to understand unless you stand by a bank counter, receive facilities of a small kind.

7984. Why could you not give those same facilities if you had not the right of issue?—We should have no motive. The motive from which we do it is to obtain the circulation of the district; we wish to issue our own notes; we wish that our notes should be the money of the district; therefore it pays us to issue the notes, say to a small farmer, because he will keep those notes, which will be a source of profit to us. But if we had to find Bank of England notes for it, of course we should charge him a considerable sum.

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7987. If I understand you rightly, you make advances, or you give facilities, upon easier terms to very small people, than you would do if you had not the right of issue, and if you had not that right of issue it would be a losing concern to you to give those facilities. If you had received 10 times the value of your issue once for all, I presume that you would still, after a time, desire to conduct your business in what would be the most profitable way to you, and that it would be impossible for Parliament to say, you ought to have done this or that with regard to this particular cowkeeper or withy binder?—Of course it would be difficult, and, therefore, I think it is for the consideration of Parliament whether, by abolishing the country issues, it would be advisable to injure the public in this way.

7988. Do you suppose that those parts of the country where there are no banks of issue have not that facility?—Yes, I am quite certain that they have not in the same degree. I think that is a matter of reason, because a banker has a great object in securing the circulation of his district. If you will allow me, I should like to give an instance that occurred in Somersetshire the other day. There is a small town called Wedmore, which is in the middle of Somersetshire, in the marshes. We wished to secure the circulation of that part of the country and we opened an agency there, and we afford facilities to the public. It would not have been worth our while to open that agency from any other motive than to secure the circulation of that district, nor would it have been worth anybody else's while to do it except with that object.

7989. Then according to that view, it would be for the advantage of England to take measures for considerably extending the local circulation, and the rights of provincial banks to circulate notes?—Yes, that argument would apply, and I should be prepared to contend that, as a political economist, whether in the existing state of opinion any such scheme as I stated before is practically possible I do not know, but it appears to me to be abstractedly sound.

7990. Do you think that bankers would be willing to deposit securities to the full extent of their issues?—That is a question that I should hardly like to answer. I think that a great many

would not, and a great many would. My impression is that the larger ones would, and that the smaller ones would not; but, of course, that is merely an impression.

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7994. Supposing that the State were to say: We will require all bankers issuing notes to deposit securities for the amount of notes which they issue, and we will allow all bankers who choose to comply with that condition to issue as much as they please, provided that they deposit ample securities; and we will take off all restrictions as to their coming to London, or as to the amalgamation of banks or any other restrictions; what ground of complaint do you think any banker could have?—I do not think that there would be any ground of complaint on the part of any banker; I see no ground upon which any banker could complain.

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7998. Now let us put the other case. Supposing that the State, instead of thinking it desirable to give to all country bankers the right of issue upon securities, were to decide upon absorbing all the country issues, and taking them into a single system of State issue, do you think that then the bankers would have any right to complain, or to claim compensation?—Yes, certainly, I think so; because they would lose a source of profit which they were encouraged by the common law and by statute to acquire, and in which capital has been invested. Take the case of Stuckey's Bank, for example; for more than a hundred years capital has been invested, and establishments erected, with a view of acquiring the circulation of Somersetshire; I am prepared to show that the whole banking system of Somersetshire has been based upon it, and similarly the banking system of England in other districts, and the public has been benefited in this way; therefore it would be hardly in accordance with justice or with the ordinary spirit of English legislation to take from us the right of issue without compensation.

7999. Can you state in what way the provincial issues in this country have affected the English money market?—I should make rather a strong reply to that question; I should say that they almost created the English money market in past times. If the

Committee will observe, they will see that in no continental country is there anything like the system of banking which prevails in England. Abroad there are hardly any cheque banks, or anything of that kind, nor has any foreign country a monetary centre at all in the same way that England has in London. The country money is not brought to the capital at all in the same way abroad as it is here. For example, the country deposits in the Bank of France are very little over £1,000,000 sterling; if you compare that with the amount of English country money that comes to London, you will at once see the great difference. The difference has really been produced by the country issuers in England and Scotland, because during the last 100 years they have grown over the provincial parts of the country and established small banks, or rather small issuing establishments, because they were not banks in the present sense; it was a very long time before any deposits of any magnitude were acquired. I do not know whether the Scotch witnesses have drawn the attention of the Committee to a very curious body of statistics published by the Bank of Dundee. This gives their accounts from the year 1764 to the year 1864, and shows that for nearly 30 years after their establishment they had no deposits at all; they were a mere bank of circulation; in that way they established themselves, and gradually the deposit system was introduced. So it was in Somersetshire and all over England, and if the Committee will consider, that is the only way in which a deposit system can easily be introduced, because if, for instance, a bank, like the National Provincial Bank, were to go and put itself down in any small town in France at this moment, it would find that it would not be trusted at all; nobody would come near it, or bring it any money. The easiest way to develop credit is to issue notes; then those notes get about into the hands of the public, and the people gradually find, having those notes, that they are trusting the bank, and that they will run no further risk if they bring them to the bank. The system of deposits gradually grows out of a note issue, because there is no increase of confidence required. It is in that way that at first the note issuers created the system of deposit banking, and that the system of deposit banking created that wonderful superfluity of money which we have in London. Therefore, I should say

that in past times the country issuer was the vital element in our banking system, although he is so small an element now.

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8002. What is the effect of a panic upon the country banks, and is it different in the case of banks of issue and banks of non-issue?—I should say that it was substantially the same in the case of banks of issue and banks of non-issue, that is to say, that we all come to London for money. It is a system which has grown up, and which I do not know to be theoretically defensible, that the Bank of England holds the reserve for the whole country. I should be sorry to have to argue that that was a system which ought to be established, but it exists; and as it exists, both banks of issue and banks of non-issue, in the event of the failure of Overend, Gurney and Company, as well as in other similar cases, raised money on securities and took it down to the country. The issuing banks are more numerous, and to that extent probably they may produce a greater effect; but, liability for liability, I do not know that there is any great difference.

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8007. Do you think that if there were a system under which the local banks could increase their issues as much as they pleased, by depositing securities to an equivalent amount, it would have the effect of mitigating panics?—To a great extent possibly it might, but panic is so unreasonable a thing, that I do not know how far it would quite. If a bank is discredited, people would probably withdraw their deposits, and take them to some other bank. For that purpose the secured circulation would not be of any permanent value, because people would not wish to hold it in the form of circulation, but they would wish to deposit it as a credit with some other bank.

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8011. But if the effect of its being known that the notes were secured was greatly to diminish the tendency of the persons holding the notes to present them for gold, would it not be in the power of the country banks, when they anticipated a scarcity of money, to deposit more securities and issue more notes, so as to meet the probable increased demand for notes consequent

upon the scarcity of gold?—Of course they could procure such notes from London, but I do not think it likely that the circulation would be much increased in that way; it is not in the power of any banker to increase his circulation. Under those circumstances, the notes that he pays out would probably be deposited in some other bank. Supposing that a bank was distrusted, and that a depositor drew out his balance and it was paid in secured notes, it is not reasonable to suppose that that depositor would keep them long in his house; he would take them to some other bank.

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8039. (*Mr. Balfour*) You do not consider that securities are a sufficient reserve as against deposits, but you do consider them a sufficient reserve as against issue; is that your view?—No; I should say that the banks must always have in their tills a certain amount to pay their notes, and they must always be prepared to pay their liabilities on demand. A system has grown up in this country under which the Bank of England holds the banking reserves for the whole country, and also the reserve for the country note issuers in Scotland. I do not think that a system of one sole reserve in a country held by a single bank, one which I should ever propose to establish, but it exists. It is a much greater anomaly, if I may take the liberty of saying so, than that of having some banks of issue, and some not; but there it is, and we must, I suppose, go on with the banking system into which we were born, because we cannot change it.

8040. My point rather was, that it seems to me that no deposit of securities will enable a bank to be certain of paying its notes on demand?—It does not give the bank the power of paying its notes on demand, and that is not the object with which I propose it, but rather with the object of giving confidence to the public that they will be ultimately paid. It would not make the note so secured absolutely equal to gold; there might be, and sometimes would be, fractional differences, but ultimately people would be sure of getting their money, and for the common transactions of life I hold that this is sufficient.

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8044. You expressed alarm just now at the fact that the Bank of England kept all the other bankers' reserves, did you not?—I did not express alarm, but I say that the system is one of the most peculiar things in England; it is a system which I do not suppose anybody would propose to establish, and which throws upon the directors of the Bank of England a very heavy responsibility.

8045. It was given in evidence by the directors of the Bank of England that the bankers' deposits were those upon which they could most securely rely, and that in time of panic, instead of decreasing, they invariably augmented?—They, no doubt, do augment. I do not know what the Bank directors may have said here, but I have heard Bank directors say that it is because the ordinary business of London does not go on in its usual way. For instance, the London and Westminster Bank said in 1857 that they held, I think, £5,000,000 of bills on deposit or re-discounted for bill brokers; in the panic they did not ask the bill brokers to find the money, but they allowed those bills to become due; they did not deposit the money with the brokers, but put the money in the Bank of England. That would make £5,000,000 of bills, we will say, deducted from the money market. In this way those £5,000,000 of bills were practically re-discounted by the Bank of England. So that there is thrown by bankers upon the Bank of England, under the present system, a burden which I certainly should not, as a political economist, wish to see thrown upon it, if you could alter the system in any way.

8046. Will you explain what you mean by those bills being re-discounted by the Bank of England?—I mean, that supposing the London and Westminster Bank allowed its bills to run into cash, those bills must be paid in some way, and they can only be paid by the discount of other bills, because there is no fresh money coming into the market. Those bills in time of panic can only be discounted at the Bank of England, and therefore the bankers' deposits were really, when the matter is searched into, discounted by a loan from the bank in that case; and it is the same in other cases.

8047. But the bank is not obliged to discount those bills?—Part of our system in England is, that in times of panic there is no real discounter of new bills except the Bank of England. The

Bank of England holds the sole banking reserve of the country, and any one who holds that banking reserve must hold it against the liabilities of the country, the liabilities which it is held to meet. Supposing that the reserve was held by many banks, it would be absolutely necessary that they should lend in a panic, in the same way as it is practically absolutely necessary that the Bank of England should lend. When you say that it is optional, of course they are not legally compellable to do it, but it is part of the business which they have undertaken, and the world will stop if they do not do it.

8048. But still the position of the Bank will be secure?—I think that in case of refusal, very probably the Bank itself would come down, because every other bank would come down, and the Bank of England could not stand alone, nor perhaps would the other bankers leave it standing alone.

8049. When the directors of the Bank of England said that they were quite certain of keeping the balances of the other bankers up to the old level, that is only done by their taking the liabilities of the other bankers upon themselves, is not that so?—If the Bank of England were to stop discounting, the bankers' balances would very likely be withdrawn.

8050. It all depends upon that, does it not?—If you can conceive the case of the Bank of England not discounting in a panic, then I think that the bankers would, no doubt, withdraw their balances; but I should be sorry to conceive such a case.

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8057. (*Mr. Mundella*) At the outset of your evidence you gave us a very interesting and graphic account of your estimate of the value of issues, and how you considered that they built up the English money market; do you consider that the uses of issues have been exhausted?—I think that the first stage of credit is a stage of note issue, and that gradually the note issue becomes of very much less importance, and that then you come to the second stage, when deposits become the principal form of banking.

8058. Having regard to the extent of deposit banking in Scotland, as compared with England, do you think that we have sufficiently developed the uses of note issues in England, as compared with

Scotland?—I think that it would be possible to obtain more from England, and, as far as it was done by a safe system of note issue, I should think that it would be good; but, if I might answer your question fully, I should say that I am not quite sure about the introduction of the Scotch system, for I think that giving so high a rate for deposits, as they do, might be dangerous. The Scotch system is founded upon two things: first, upon a system of note issue; and next, upon a high rate for running accounts. So far as the note issue goes under proper regulations, I daresay it is good; but as to the high rate which they give for money, I think that we have yet to learn whether it is good or not. Every day's experience of the money market, I think, increases the apprehension of many persons that altogether we are giving too high a rate for money, and that the amount of reserve which we keep, is in consequence unduly diminished.

8059. Apart from those considerations, do you not think that the Scotch system has had a very beneficial effect upon the national character in developing habits of thrift among the Scotch people? —I think that it has had an extremely beneficial effect upon the world, and upon the nation in general. I would not for one moment speak disrespectfully of the Scotch system of banking; I think it is, in many respects, the best system that the world has seen; but if you ask me about the Scotch character, I think that the Scotch character was much the same before the present system of banking was established in Scotland.

8060. In your opinion, would it not have the same tendency in England to develop habits of thrift if banking were pushed to the same extent in England as it is in Scotland?—I do not see how it would encourage thrift very much, except by giving higher rates for money, which I am not clear ought to be given.

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8063. Supposing that that theory were put into operation, what would be your views as to the status of the Bank of England under those circumstances?—Some one must keep the legal tender. My suggestion only applied to what I called the subsidiary issue. You must have a legal tender note secured in some very different way, by very large amounts of gold being kept

either in the present way or in some other way; so that an enormous quantity of gold would be kept, so as to secure the instant convertibility of the note.

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8074. (*Mr. Leveson Gower*) I assume from your evidence that you disapprove of the monopoly of issue which was established in Scotland in 1845?—I very much doubt whether the Act of 1845 is capable of much defence. I do not know whether that is part of the subject-matter of this Committee. The Act of 1844, in England, has done, I think, an immense deal of good in various ways, but as regards the Act of 1845 in Scotland, I have very great doubts whether it has ever done any great good; and if you have to explain it to a cultivated American or any person of that sort, it is one of the most difficult things to make him understand that can be conceived. I have several times had to do it, and I have found that the American thought I must be talking to him of a law which could not exist; it was so incomprehensible.

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8086. (*Mr. Backhouse*) With regard to a question which was asked on Monday of the Directors of the Bank of England, in reference to the pressure of banks of issue in time of panic upon the Bank of England, in your opinion is there any appreciable difference in the amount of money which the banks of issue draw from London in consequence of their being banks of issue; is it not taken that the amounts drawn are drawn equally by all country banks in order to protect their deposits and their general liabilities?—I should say that it was only one of their liabilities; I do not think that they draw more money as against their note issue than they do as against the deposit liabilities.

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8093. I gather from your answer that the tendency of recent years has been to allow a rather higher rate of interest on money at short notice, and at call, than is desirable?—I think that it is very questionable whether too much is not given.

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8099. (*Mr. Goschen*) With regard to the reserves, have you ever seen any system suggested which commended itself to your mind

in lieu of the present system of the Bank of England practically holding the reserves of the bankers?—Not under our present circumstances, which I am sorry to say that I am afraid we cannot change. If we were starting *de novo*, I should like to see a large number of banks each holding its own reserve. I think such a system would be preferable, but I do not see how you could go back to it.

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8104. Therefore, while attention is continually called to this fact, so far as you have watched any schemes which have been suggested for removing it, you would think that it would be almost impossible to deal with it by legislation?—It would be absolutely impossible to deal with it by legislation.

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8111. So that while public attention is turned to this question of the reserves it may be usefully turned to the point of the difficulty, and indeed the absolute impossibility, of finding remedies for it by any action of Parliament?—Certainly no remedies can be found for it by any action of Parliament. The only good which could be done in any way is by the recognition of the present state of things. The danger which I fear we are running is that no one knows exactly what our present system is. I think that formerly it was not generally known, for example, at the West End, though people are beginning now to understand it, that the Bank of England was a different bank from the London and Westminster Bank in this respect, that it held an enormous deal more actual cash (by cash I mean bank notes and coin); and that those bank notes were held upon some kind of condition that they would lend them in the time of panic.

8112. Would the general feeling be properly described in this way; that now, less than at almost any previous period, individuals of the public think it necessary to hold reserves, while at the same time they think they ought to have an unlimited amount of capital supplied to them, when they want it, upon their bills and securities?—I should not accept those words; I should rather put it in this way; that the present doctrine is that the whole of the ultimate reserve is kept in the banking department of the Bank

of England, and that the Bank of England must hold enough for everybody, or else it and everybody stops.

8113. But does not everybody consider that he is entitled to be able to borrow to an unlimited extent, provided that he has an unlimited amount of securities?—Yes; that the Bank of England lend out of the reserve on good security in time of panic. I should say that in my notion the banking reserve, whether it is held by many banks or by one, would be burdened with that liability (if I may use the expression), and that in time of panic you must lend freely out of it. That is one of the objects for which you keep it. The best mode of staying a panic is by lending. If people find that they cannot get their bills discounted, and that they cannot get money upon their securities, then the panic increases. It is only by very large and bold action on the part of the persons who possess the reserve that you can stop a panic; and whether the reserve is kept by many banks or by one, that would still be the duty of the holders of the reserve.

8114. Provided that the bold action does not exceed the means at the disposal of those who exercise it?—They are bound to have the means; they get nothing by timid action, because in that case they will certainly themselves fail.

8115. You see no legislative remedy for the present state of things?—No legislative remedy whatever.

8116. And at the same time you look upon it as most grave, and somewhat alarming?—Yes, I look upon it as a ground for anxiety (' alarm ' is a strong word) and for incessant watchfulness.

8117. You consider that the reserves are small, and that the situation, both in banking and commercial respects, is such that if there is a great strain upon those reserves they must be most boldly dealt with, or else disaster will ensue?—Quite so.

8118. And that if, on the other hand, that boldness were a little excessive, disaster would also ensue?—When the panic has actually occurred, I think you must lend right and left; you have nothing else to do. The time for caution is in preventing a panic.

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8123. In your judgment, does the Scotch system gain strength from the fact of the existence of the reserve of the Bank of England?—I should say that not only the present system of Scotland, but the whole system of Scotland from the beginning is based upon the fact that England holds, and has held, the reserve for Scotland.

8124. The Scotch system is not then an entirely self-contained system, and it could not be maintained without the prospect of disaster, but for the fact that it rests to a certain extent upon the collateral system of England, which secures large reserves open to Scotland in time of panic?—It is essentially a provincial system, though it is, I have no doubt, an excellent system.

8125. Could the Scotch system be maintained, looking to the convertibility of the note, and the chances of panic, unless in times of panic there was the reserve in the Bank of England to meet that panic?—I should say that no part of our English or Scotch system could be maintained but for the reserve in the Bank of England. We all rest upon that.

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8132. With regard to some questions that were asked you upon a point of political economy; is it in accordance with your views of political economy that free trade would consist with allowing privileged monopolists to contend, under the same system of law, with others who have no monopoly?—If you are starting *de novo*, of course, all producers ought to start fair, and on equal terms. The only question is, how far, when systems have grown up, you will interfere with them at the risk of doing harm.

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8136. (*Mr. Hubbard*) Did I correctly understand you to say that a provincial bank having a right of issue, was able to afford banking accommodation to the district with which it dealt upon more favourable terms than if it had not the power of issue?—I did not use the word 'accommodation'; I meant to say that it was able to do a greater variety of small business, for the sake of requiring the circulation of the district; they cashed cheques, for example, which it would not be worth while to do otherwise.

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8140. It would not, therefore, lend upon more favourable terms than a non-issuing bank?—No.

8141. Then in what would consist the advantage that the district would derive from the bank being an issuing bank?—It would do a variety of small business for the sake of acquiring the circulation of the country, which it would not do otherwise. For example, as stated in the particular case of Somersetshire, if a person selling the produce of the county gets a cheque on a distant bank, that cheque would be cashed across the counter in our own notes free of charge. That is not a loan, you will observe; that is an exchange, and all that class of business is done now to an extent in detail; which you must stand at the bank counter to understand. A large number of transactions in a day of a petty description are done cheaper than they would be if we had to find Bank of England notes for them, and they are done with a view of obtaining the currency of the district. We establish agencies, as I have already stated, to make those exchanges, so as to get out our notes.

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8168. (*Sir John Lubbock*) The balances of London bankers constitute, do they not, a very large proportion of the Bank of England usual reserve?—Yes.

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8170. I think that I gathered from the general tenor of your evidence with reference to panics, that you thought that the proper course for the Bank of England to adopt in times of difficulty was to raise the rate of interest betimes to such an extent as to attract money from abroad, but not suddenly to refuse the discount of good bills?—I think that the Bank of England ought to extend its discounts at the time of panic as holding the ultimate reserve of the country; that whoever holds the ultimate reserve, whether it is in many banks or in one, must be prepared in times of extremity to lend freely. This is the only mode by which a panic can be allayed. Any restriction of accommodation at that moment only increases the panic and

augments the amount of loans in advance which have to be given afterwards.

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8179. In your point of view, are local notes an advantage not only to the bank which issues them, but also to the public?—I think that the poorer part of the public would suffer very much if the local issues were abolished.

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8185. If we had one single national note issue, might there not be some danger that in times of difficulty the Chancellor of the Exchequer would be very strongly pressed to increase the amount issued beyond what would be altogether safe, or (which is the same thing) to reduce the amount of gold held against it?—Quite so. I think that in time of panic if a State issue was the sole legal tender, there might be extreme and very dangerous pressure on the Government to lend money to persons to whom it ought not to be lent.

8186. In times in which, owing to a bad harvest, or to any other cause, the Exchequer was running low, there would always be a pressure, would there not, to diminish the amount of gold held in reserve against the notes, which might be carried to a dangerous extent?—One might hope that the public might have sufficient strength of principle not to deal with it. Of course there is that danger, but I should hope that that might be obviated. I should rather fear an extreme pressure on the Government, in a time of panic, to lend notes. At present the loans are made by the Bank of England in time of panic, and the Bank of England knows how to manage because it is a trader in the market; but if the Government once began to lend I do not know whether it would have the same discretion. I am quite sure that it would never be thought to be equally impartial, because the Prime Minister or the Chancellor of the Exchequer might be Member for a great commercial community, for London or Liverpool, and the public would never believe that his constituents did not get a benefit. For those reasons, under a Parliamentary Government like ours, I think a State issue would be exceedingly dangerous.

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8198. (*Mr. Anderson*) In your answer to the honourable Member for Maidstone, did you mean that it would be impossible to put a State issue under such control that the Chancellor of the Exchequer, or another Member of the Government, could not use it improperly?—'Impossible' is a strong word; but I say that under Parliamentary Government in time of panic it would be a very dangerous machinery; I am fearful that it might be used for making improper loans, and I am still more fearful that it would be thought to be used for making such loans even when it was not so used.

8199. But could not Parliament put it out of the power of the Government to do that?—Then Parliament must put it into the power of somebody else.

8200. Might not the power be vested in trustees, for instance?—Who are the trustees to be? The trustees must be nominated by somebody.

8201. They need not be members of the Government, I suppose?—They may be nominally independent Commissioners.

8202. Might they not be entirely independent, subject only to Acts of Parliament, so that there could be no control over them except by an Act of Parliament specially passed?—It would be possible to make them theoretically independent, but I very much question whether they would be practically independent, and I still more doubt whether they would be thought by the public to be independent, whether they would have the confidence of the public, and whether the public would not believe that persons of high interest obtained loans for their friends in times of panic, which persons who were not so befriended did not obtain.

8203. But would giving Commissioners control over a State issue necessarily involve giving them power to make loans to anybody?—I say that in a panic there would be a fearful rush upon the Government to make loans; I believe that there is an extremity of panic in which more notes must be issued; the orthodox doctrine laid down by Ricardo is that there is a period of panic at which the restrictions upon the issue of legal tender must be removed; supposing that to be so, and that you put the legal tender absolutely into the hands of the Government, I fear

that loans would be made to improper persons, and I still more fear that it would be thought that they were made to improper persons.

8204. Would that pressure be stronger upon Parliamentary Commissioners than it would upon the Directors of the Bank of England?—The Directors of the Bank of England know how to manage it, and the world have confidence in them because they conduct the management as part of their general business.

8205. You think that Parliamentary Commissioners would not know how to manage it?—They would not know how to manage it, and they would be subject to all manner of political pressure, whereas the Bank of England is a body withdrawn from the political world, and not subject to political pressure.

8206. Then you would not be in favour of taking away the issue department from the Bank of England or making it more distinct than it is at present?—In my judgment it would be a very dangerous thing to do, for the political reason that in time of panic it would never be thought that any lending power in the Government would be well exercised.

8207. You look upon the Bank of England as the holder of the ultimate reserve, and you say that it is bound to lend money very largely in time of panic; how do you propose to give it means to do that?—It ought to hold such a reserve as will enable it to do so, subject of course to what I was also saying, viz., that there is a period of panic at which any restrictions upon the issue of legal tender must for a moment be broken, and in which any Issue Department which you may have must probably have to make advances in some irregular manner.

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8214. Is it not the fact that at certain times it has been quite well known that certain banks have such large deposits with the Bank of England, that at any time they could swamp the whole reserve by drawing those reserves out?—I cannot speak of any particular banks, but the returns which have been presented to Parliament show that the aggregate of bankers' balances has often been more than the reserve.

8215. And therefore, that those bankers by withdrawing their balances, could have exhausted the reserve of the Bank of England?—Undoubtedly they could have done so, if they had so chosen.

8216. Does not that give a very improper or dangerous power to bankers over the Bank of England?—I am not afraid that the bankers would ever ruin the Bank of England, because they all depend upon the Bank of England.

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8220. Therefore you think that the fact of the bankers' reserves being held at the Bank of England is not an element of danger at all?—I think that they are the deposits which are the least likely to be taken from the bank. As I explained before, I do not think that depending upon a single reserve is at all what a sound political economist would have wished to establish; but still there it is, and we must make the best of it.

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8227. (*Mr. Orr Ewing*) You are not in favour of a £1 note circulation, are you?—If it was secured I see no disadvantage in it.

8228. Are you in favour of it?—As a theoretical political economist I see no objection to it, but I am not in favour of its practical introduction at this moment. The two things must be kept carefully distinct.

8229. Is it not the case that banks in England that have not the privilege of issue compete successfully with banks of issue, and pay the highest dividends in England?—Banks which are not banks of issue are very prosperous indeed; I forget the exact figures.

THE GLASGOW BANK SCANDAL, 1878

'THE ECONOMIST' AND LIMITED LIABILITY

The Economist, 5th October 1878.

The Failure of the City of Glasgow Bank (Article).

The failure of the City of Glasgow Bank is still so recent (it occurred only on Wednesday, the 2nd instant), that at present little more than a bare outline can be given of the position of affairs. The circumstances which led to the failure are obvious

enough; and the investigation which must immediately take place will undoubtedly show that the reckless trusting of enormous sums to a few large and insolvent firms which has brought on the final catastrophe had been continued for a very considerable space of time. The question arises—with such large sums of paper in circulation, some of it based on transactions representing fixed advances rather than commercial business—how had the Bank continued to remain in credit so long? But here the feeling of confidence in the system of Scotch banking which a long series of years has produced came in, and operated in a manner which will eventually be found, we fear, to be extremely prejudicial to the interests of the shareholders. For many years, for a period, indeed, extending beyond the lifetime of many persons, it has been the boast of the Scotch that no depositor, or holder of any security belonging to a Scotch bank, has ever lost a sixpence by trusting to it. This immunity from loss on the part of the depositor has been obtained, it is true, notably in the case of the Western Bank of Scotland, at the cost of the shareholders; but as far as the public has been concerned, the security has been absolute. Hence, though a mistrust, but too well founded, on the part of many interested in banking existed in the mode of doing business of the City of Glasgow Bank, yet the confidence even of bill-brokers and bankers was only gradually broken down by the enormous quantity of acceptances in circulation, while that of the general public was maintained to the very last moment. Even on Tuesday, the 1st, the day preceding the failure, the shares of the bank, with £100 paid, were dealt in at 235½, and the ordinary business of the bank was carried on, it may be said, quite as usual till the end of the afternoon on which its operations came to a close. There was no run, or any semblance of a run; there was no local discredit; but when the other Scotch banks came to the conclusion that they could give no assistance, the concern suddenly stopped because it was utterly rotten.

It is not the first time in its history that such an event occurred. On November 11, 1857, two days after the stoppage of the Western Bank of Scotland, the City of Glasgow Bank closed its doors for a time. In about a month from that date it was able

to resume, and so strong was the confidence in it then that the business and the circulation both rapidly extended themselves. The old habits, however, of doing bad business unfortunately appear to have clung to the concern, and even to have grown with its further development after its second starting. When the investigation is made, the rock on which the concern split will be found to be the old one of a direction working in a vicious circle and recklessly advancing large amounts to themselves and their own friends. With scarcely an exception the directors were connected with the names on the bills in circulation, and with the firms to which the advances were made. It is very little use attempting, at present, to give any detailed statement as to the extent of the liabilities and value of the assets. Till further particulars arrive, we must withhold all observations on these points. The fact that the other Scotch banks are willing to take up the notes of the City of Glasgow Bank appears to support the belief that all the liabilities of that bank will be met in full. The danger of discrediting the circulation may, however, have had some influence on the other banks in determining their action in this matter, and till a reliable statement can be prepared we can only speak with the utmost caution. Several points, however, call for a few remarks. The first relates to the state of business generally. This is in a totally different position now from what it was in 1857, when the former failure of the City of Glasgow Bank took place, in conjunction with that of several other banks. Though the City of Glasgow Bank has done an extremely bad business, it does not by any means follow that any other Scotch Bank has countenanced transactions of a like nature. No rumour of this character exists. The amount of the acceptances of the City of Glasgow Bank in circulation is estimated as being not less than £2,700,000 or £3,000,000. It is necessary to speak on this point with the utmost reticence till the exact figures are published. The amount of acceptances now stated to be in circulation is certainly very largely in excess of that named in the last published balance sheet, but the statement which may shortly be looked for will doubtless explain the discrepancy. At present only an estimate can be made. The acceptances are understood to be held generally by those who can well afford to wait till the

realisation of the assets takes place. This fact removes much anxiety as to the further consequences of the failure.

The further points for consideration are these. (1) Is the policy of accumulating large masses of deposits by allowing high rates of interest a wise one for banks? Would it not be safer to be content with such deposits as a lower rate would attract? In this respect the policy of the City of Glasgow Bank did not differ from that of other banks in Scotland and in England as well; but does not this catastrophe show the danger of such a course, and the risks which banks following it are led into as to the employment of their money?

And (2) the whole subject of the prudence of banks giving their acceptances at all comes under question. That it involves a risk is always clear, but when such acceptances are given to the bills of firms doing business at a distance from the accepting bank, common prudence would step in and say that such a thing should never be done. The safety of the Scotch banks, as of every other bank, consists in doing business only with those firms whose trade lies in their vicinity, and whose position can thus be readily investigated. We do not believe that any deviation from that safe rule can long take place with impunity. Meanwhile, though till more complete particulars are known, all further remarks on the management of the concern must be suspended, it is difficult to draw a line in cases like this between recklessness and absolute criminality. To have plunged so many persons into want by financing of this order is no light matter, and the event opens the question whether in a business of this nature a special responsibility should not attach to the position of those to whose acts the welfare of so many is entrusted.

The Economist, 30th August 1879.

Mr. James Morton and the Failure of the City of Glasgow Bank (Article).

The process is becoming gradually clear by which the greatest mercantile catastrophe and disgrace of the last thirty years was brought about. The recent protracted and able examination of Mr. James Morton by Dr. M'Grigor for the liquidators, has laid

bare a good deal of the reckless manipulations by which the losses of the bank on some half-dozen accounts were raised, in the course of a few years, to six or seven millions sterling.

The bank was kept afloat for three, four, or perhaps five years, by the renewal and enlargement of its own acceptances, amounting to several millions. The bills so accepted were in due mercantile form, and purported to be drawn upon the City of Glasgow Bank from abroad by firms well known in Scotland against credits granted on securities. The person who chiefly appeared as the negotiator of these acceptances in London and elsewhere was Mr. James Morton, of James Morton and Co., the proprietors and managers of the New Zealand Land Company, and themselves debtors to the Bank on its failure on October 2nd, 1878, for 2½ millions sterling. A Mr. William Scott, of Glasgow, was also employed as negotiator by the bank; and a few months ago Mr. Scott was indicted at the Glasgow assizes on a criminal charge, supposed to be justified by some circumstances connected with this employment. But the indictment was found to be so defective that the Court refused to entertain it.

Much wonder has been all along expressed that Mr. James Morton was not included in the criminal proceedings against the directors and officers. He was examined, however, for two days under his bankruptcy before the Sheriff's Court at Glasgow, and the public are able to judge of the character of the defence he puts forward. In a few words, his plea is one of innocence and ignorance. He expatiates on the constancy and extent of his services to the directors and managers; but he was all the time quite ignorant of the meaning and purpose of the gigantic financing to which he was required to sacrifice time, leisure, and comfort. The *Glasgow Herald*, immediately after Mr. Morton's examination, said:—'How Mr. Morton must quietly chuckle in 'his thoughtful hours at Elderslie over the fools now languishing 'in Ayr and Perth prisons. Mr. Morton is the bank's greatest 'debtor; he assisted in carrying the bank on, unknowingly, he 'says, to irretrievable disaster and to the ruin of every shareholder 'connected with it. But he is a free man, preaching his innocence 'at every opportunity, garrulous and jocular over his many 'thousands of transactions with it, while his friends the directors

'and the manager are teazing oakum in the garb of felons. What 'wretched fools they were so to conduct affairs as to bring them-'selves within the meshes of the criminal law. Had Mr. Morton 'been manager or director he would never have done so. He 'could not have been such a fool! Foolish he may have been—'which we deny—but never such a fool as that.' If these are the comments of one of the most respectable newspapers in Glasgow, where Mr. Morton and his antecedents are well known, his plea of innocence and ignorance will hardly be more favourably regarded out of Scotland.

It is now established by evidence that the acceptance of the bank to bills drawn in the names of Holmes, White and Co., Matthew Buchanan and Co., Glen, Walker and Co., and others, were accommodation paper of the worst sort. Most of the bills themselves were latterly kept in stock in Glasgow, and were filled up as the necessities of renewing former bills or raising more money arose. The following passage in Mr. Morton's examination by Dr. M'Grigor is a fair sample of the sort of explanation put forward of Mr. Morton's ignorance and innocence:—

Q. Besides these amounts which appear in the bank's books, you seem, Mr. Morton, to have had very considerable transactions with the bank which do not appear on the bank's books at all?—A. Yes.

Q. Were you in the habit of going to the teller of the City of Glasgow Bank and lifting sums of money against your I O U's which were redeemed either the same afternoon or next day, or two or three days after?—A. Very frequently.

Q. Have you had as much as £20,000, or £30,000, or £40,000 in one day?—A. I have had £50,000 in one day, at times.

Q. And you were aware that these moneys did not pass through the books of the bank?—A. I understood they did not—they were I O U's.

Q. And what was the object of this money not passing through the books of the bank?—A. It was generally done for the convenience of the bank.

Q. Were these monies entered in your pass book?—A. No, they were not entered at all.

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Q. You got, say, £20,000 from the bank, and would not repay it for two or three days?—A. I bought letters of credit on London, and sent up letters on London to meet City of Glasgow Bank acceptances falling due.

Q. Was this carried on upon an extensive scale?—A. On a considerable scale.

Q. Would you be startled to hear that the amount between March, 1869, and October, 1878, paid to you without passing through the books of the bank was £8,020,000?—A. I would have thought it would have been a great deal more. (A laugh.)

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Q. Tell us the object of all this?—A. All I know was that they sent for me and said there are some very heavy demands for London upon us, and that they wanted cash provided for them. They would say, Have you any London money? And if I said I had not, they would say, Give an I O U to the teller for the amount wanted and try and oblige us with the necessary amount of London paper, and I did so. The banks were glad to sell and get their commission on London paper. It gave me some trouble to carry through these transactions, but that was all I got for doing it—not even thanks.

Q. The process was this, you went to the bank?—A. No. I was sent for to the bank. If I happened not to be there at the time the pressure came upon them they sent for me.

Q. How often did this occur?—A. Two or three times a week. It might be three times a week, sometimes oftener, and sometimes seldomer.

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Q. You knew what this was for, tell us all about it?—A. You are putting words into my mouth. You have no right to tell me I knew what it was for, I only knew what I was told, and I was told there was a heavy drain in London.

Q. And you undertook transactions to the amount of £8,000,000, which did not pass through the books of the bank, and about which you did not understand what it was paid for?—A. I understood what it was wanted for. I was to get orders on London for the bank, and I considered in doing that I was serving the bank to that extent.

The indignation of Mr. Morton, when he exclaims—'You have no right to tell me I knew what it was for, I only knew what I was told,' is in the highest vein of comedy and humour.

Another passage from the examination will still further exemplify the enormous extent of this bill manufacture, and the sort of treadmill life that Mr. Morton was content to lead for years, with, as he affirms, not only no reward, but not even bare thanks. The world certainly knows nothing of its greatest men; but if Mr. Morton is to be believed, it knows nothing of its greatest martyrs and philanthropists.

Q. Where were these bills engraved?—A. I don't know.

Q. Do you mean to say you don't know?—A. I don't know; I never looked.

Q. You know the whole transaction, and you can easily answer shortly without all these questions?—A. I know from the examinations which have come out that Potter, Wilson and Co.'s people sent out to Holmes, White and Co. books of City Bank credits. They got them here for the purpose that they might be used or issued, as arranged. The bills came to me in a filled-up form.

Q. Were they engraved in Glasgow?—A. I cannot say unless I look. They might be engraved in Melbourne for anything I know. (The engravers were Gilmour, Dean & Co., Glasgow.)

Q. The drafts were sent out in books by Potter, Wilson and Co.?—A. I suppose so.

Q. And returned signed?—A. I believe so.

Q. Who kept them?—A. Potter, Wilson and Co.—Lewis Potter I believe.

Q. Was the place of issue either here or in Melbourne?—A. I cannot answer that. The bills were handed to me in a printed form. . . . I have not the smallest doubt that the bills (Matthew, Buchanan and Co.) were in Glasgow. There were always bills lying in Glasgow to be ready for a breakdown of a mail or mails, so that they could be used if required. The bank was the party responsible for retiring the bills.

Q. Do you find that no less than 66,000 bills were presented before the end of September?—A. Very likely. I had before then got more than 6,000 bills from the bank in one day on their own account, so that that does not surprise me at all.

Mr. Morton's final speech in the Sheriffs' Court, when signing his deposition, reveals his character very aptly. Dr. M'Grigor had said that 'Mr. Morton would assure the liquidators that he 'had been the manager of the bank', and this gave Mr. Morton an opportunity of putting forth the following characteristic vindication. 'He had no doubt,' he said, 'that he had been a great 'fool, but he would have been a greater fool to have conducted 'the bank as it had been conducted. He only hoped that the 'other assets of the bank would realise as well as his. If the assets 'were not properly handled, it was not his fault. The bank knew, 'when making advances to him, that he held rights to ground 'equal to a seventeenth part of the agricultural land of Scotland, 'and in a far better climate. No doubt, Dr. M'Grigor had been 'doing his duty in connection with this matter, but it appeared

'to him that the whole purpose of bringing him up for examina-
'tion was to please the public. He hoped and trusted they had
'been greatly pleased. He could have given them more informa-
'tion if they had wished. He would have been quite agreeable
'to have gone on with his examination for a week or ten days
'longer.' The rollicking audacity and self-assertion of this speech reveal something of the qualities which enabled Mr. Morton, for three or four years, to keep afloat in London and other places millions of the bank's acceptances long after they had become the merest kites. The comparison of land in the wilds of New Zealand to agricultural land in Scotland, but with the superiority of a better climate, is excellent; so also is his personal belief that he had only been examined to amuse the public; his hope that the public had been pleased; and his readiness to go on with the entertainment ten days longer.

It is not difficult now to understand pretty plainly how the City of Glasgow Bank was conducted to its gigantic ruin. It was Mr. Morton who was the genius and master-mind of the institution—outside the institution, if you please. It was Mr. Lewis Potter who was the unscrupulous and austere malefactor within. Mr. Lewis Potter, Mr. Morton says, was the man who kept the bales of blank bills, and who always handed the needful weekly or daily supply to Mr. Morton, 'duly filled up, accepted, and in order', for discount with the confiding banks and brokers in London; and Mr. Morton did this with a manner grave, taciturn, sententious, precise—knowing exactly what he wanted, and where he was most likely to get it. Mr. Morton was a power and a presence, wherever he appeared, but more especially in the London discount market; and many bitter recollections there must be in the City of the admirable personation of ignorance and innocence which Mr. Morton so perfectly sustained. In Glasgow Mr. Morton added the fame of personal piety to his repute as a great merchant and a profound financier. He was one of the most popular and effective Sunday School teachers, even in that City of biblical exposition. He lived handsomely at Elderslie, and he was not wont to hide his charities entirely from the public ken. Mr. Lewis Potter was a man of far inferior capacity. He was the bully of the bank parlour. He bore down

and browbeat any director who asked questions. He knew very well that his delinquencies were so dark that if safety was to be had at all, it must be found in audacity and loud assertion.

The sum of the whole matter is not pleasant for Scotland. Mr. Morton tells his countrymen, and a great many of them believe him, that he was ignorant and innocent. He is a free man. He is still to be found in his old haunts and in his old pursuits. He can salute with innocence his old friends, and although no longer young, he very likely—such is his force of character and such his exuberance of resource—indulges the expectation of rising again to high commercial eminence. He would be a bold man who should affirm that in Scotland this is not possible—even to Mr. James Morton.

The Economist, 25th October 1879.

Banks and Limitation of Liability (Article).

Rather more than a twelvemonth has now passed since the great banking failures of last autumn began to reflect an undiscovered discredit on almost all the other banking institutions of the country. In presence of a great public calamity, such as the stoppage of the City of Glasgow Bank, or, in a less degree, of the West of England and South Wales District Bank, people do not pause to consider whether the class of mismanagement which brought those banks to ruin is likely to be unusual or not. The want of reasons in arguing on such grounds is very obvious; but the effect produced at the time was, as will be remembered, a very considerable drop in the value of bank shares. A large proportion of this decrease in value was more on paper than in fact. The low quotations in the price lists were partly the result of alarm, and partly, also, the cause of it. A fear lest the shares should pass from wealthy shareholders into the hands of those who did not mind holding them because they had nothing to lose induced a desire for legislation to grant facilities for limitation of liability. This, it was argued with much force, would prevent the lists of shareholders from deterioration at the present time, and improve them for the future. The Government Banking Bill

of last Session was the outcome of this feeling; by it permission is given to all the joint stock banks of the country not only to register under limited liability, but also to arrange, on very comprehensive terms, for a ' reserve liability ' in case of failure. How far the alarm of last autumn has led to shares changing hands is best known to the banks themselves. An examination of the Supplement to the *London Gazette*, which contains the names of the shareholders in banks doing business in the Metropolis, does not support the belief that the change was very sweeping. Fluctuations must, of necessity, take place continually in any large share list, and it is difficult to say, if we carry the investigation a few years back, whether such changes as are recently shown are more than must have occurred, in any case, through the natural course of events. Be this as it may, the question now is, Are the joint stock banks going to avail themselves of the power which the Act of last Session conferred on them? They sought for the power strenuously and earnestly, and it is natural to expect that they will avail themselves of that which they have been at so much pains to obtain. The meeting of provincial joint stock banks held this week is understood to have answered the question in the affirmative, and if the provincial joint stocks adopt this course the metropolitan joint stock banks may be considered likely to follow it eventually. To carry out the change successfully two requisites are clearly needed. The banks which make the alterations are bound both to show that it is necessary, and, also, that those who do business with them will take no harm from it. The first must be left to the banks themselves. To explain the complete force of the second it is needful to go back to the arguments used at the first introduction of joint stock banks into England. The existing generation of business men scarcely remember this epoch. Two main arguments were employed in favour of joint stock banks by their supporters. The first was that the capital, when once paid into the business, could not be removed through the death or failure of any shareholder, the shares in such cases being sold, so that the same capital would always remain in the concern. The second was that the unlimited liability of the shareholder provided a further and a vast additional security beyond the paid-up capital. Should the proposed

change be made the first requisite will remain; the second will be modified by the substitution of a limit on the responsibility of the shareholders.

The question is now narrowed to this point: Will the limited liability of the present shareholders provide an efficient guarantee in case of failure? In considering this it must be remembered that, though the capacity of any body of shareholders to meet calls may be vast, it is not boundless. An examination of the share lists of most of our banks exhibits a very large—almost an incredible—number of spinsters and widows, a considerable sprinkling of Clergymen and Dissenting Ministers, professional men, and others, whose occupations do not appear likely to have enabled them to accumulate much wealth. The latest official list of shareholders of the leading joint stock banks in London, for instance, shows that out of the whole number more than one-third are women, the proportion varying from one-fifth to two-fifths of the whole in the case of the different banks. Should those really solid men whose names now appear in the lists be driven from them through fear, the power of the whole body, as it would then stand, to meet any really large call would be very considerably reduced.

The limited liability of the wealthy may be expected to prove as good if not a better security to the depositor as the unlimited liability of the poor. This, of course, assumes such a selection of shareholders as will be able to meet the calls which may possibly be made on them. A sufficient amount of paid-up capital, with a moderate further liability—we will say twice as much as what is paid up—may prove the best arrangement for all concerned. This may not be obvious at first sight. The banks which may propose to make the change have, however, in their power to give the public a knowledge of the reality of the security proposed. They can, in arranging their trust deeds, easily provide for the creation of a reserve fund to be invested outside the business, in order to meet the reserve liability. This reserve fund might be created at first either by employing a part of the reserve funds now existing in the case of most joint stock banks of old standing, or by setting apart a portion of the profits to build it up gradually. No doubt the profit to be obtained from capital

partly employed in business and partly invested in first-class investments, such as would alone be suitable for the purpose, would not be so great as if the capital were employed in business alone. But the portion of the public which does business with banks has really a right, if the shareholders propose to limit their liability for their own benefit, to ask that something substantial should be done for the security of the depositors; and there can be no doubt that the shareholder himself would eventually benefit by the additional confidence which such an arrangement would give. A bank possessing a strong reserve fund of this description would naturally stand better with its customers than one which had not taken a similar precaution. The examples of the Bank of England, the three senior banks of Scotland, and the Bank of Ireland, show that banks believed to be founded on principles of limited liability may carry on business for many years with great success. Prudence and care will be as much needed as ever for the proper conduct of business under the altered circumstances in which the banks, should they make the change, will stand; but it cannot be otherwise than an advantage if the necessity of constant care and watchful prudence is brought strongly home to the minds of all concerned in the management of a business on which the welfare of so many depends.

JOINT STOCK BANKING LIABILITY

42 & 43 VICT. c. 76

An Act to amend the Law with respect to the Liability of Members of Banking and other Joint Stock Companies; and for other purposes. (15th August 1879.)

Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

1. This Act to be cited as the Companies Act, 1879.

2. This Act shall not apply to the Bank of England.

3. This Act shall, so far as is consistent with the tenor thereof, be construed as one with the Companies Acts, 1862, 1867, and 1877, and those Acts together with this Act may be referred to as the Companies Acts, 1862 to 1879.

4. Subject as in this Act mentioned, any company registered before or after the passing of this Act as an unlimited company may register under the Companies Acts, 1862 to 1879, as a limited company, or any company already registered as a limited company may re-register under the provisions of this Act.

The registration of an unlimited company as a limited company in pursuance of this Act shall not affect or prejudice any debts, liabilities, obligations, or contracts incurred or entered into by, to, with, or on behalf of such company prior to registration, and such debts, liabilities, contracts, and obligations may be enforced in manner provided by Part VII. of the Companies Act, 1862, in the case of a company registering in pursuance of that Part.

5. An unlimited company may, by the resolution passed by the members when assenting to registration as a limited company under the Companies Acts, 1862 to 1879, and for the purpose of such registration or otherwise, increase the nominal amount of its capital by increasing the nominal amount of each of its shares.

Provided always, that no part of such increased capital shall be capable of being called up, except in the event of and for the purposes of the company being wound up.

And, in cases where no such increase of nominal capital may be resolved upon, an unlimited company may, by such resolution as aforesaid, provide that a portion of its uncalled capital shall not be capable of being called up, except in the event of and for the purposes of the company being wound up.

A limited company may by a special resolution declare that any portion of its capital which has not been already called up shall not be capable of being called up, except in the event of and for the purpose of the company being wound up; and thereupon such portion of capital shall not be capable of being called up, except in the event of and for the purposes of the company being wound up.

6. Section one hundred and eighty-two of the Companies Act, 1862, is hereby repealed, and in place thereof it is enacted as follows:—A bank of issue registered as a limited company, either before or after the passing of this Act, shall not be entitled to limited liability in respect of its notes; and the members thereof shall continue liable in respect of its notes in the same manner as if it had been registered as an unlimited company; but in case the general assets of the company are, in the event of the company being wound up, insufficient to satisfy the claims of both the note-holders and the general creditors, then the members, after satisfying the remaining demands of the note-holders, shall be liable to contribute towards payment of the debts of the general creditors a sum equal to the amount received by the note-holders out of the general assets of the company.

For the purposes of this section the expression 'the general assets of the company' means the funds available for payment of the general creditor as well as the note-holder.

It shall be lawful for any bank of issue registered as a limited company to make a statement on its notes to the effect that the limited liability does not extend to its notes, and that the members of the company continue liable in respect of its notes in the same manner as if it had been registered as an unlimited company.

7. (1) Once at least in every year the accounts of every banking company registered after the passing of this Act as a limited company shall be examined by an auditor or auditors, who shall be elected annually by the company in general meeting.

(2) A director or officer of the company shall not be capable of being elected auditor of such company.

(3) An auditor on quitting office shall be re-eligible.

(4) If any casual vacancy occurs in the office of any auditor the surviving auditor or auditors (if any) may act, but if there is no surviving auditor, the directors shall forthwith call an extraordinary general meeting for the purpose of supplying the vacancy or vacancies in the auditorship.

(5) Every auditor shall have a list delivered to him of all books kept by the company, and shall at all reasonable times have access to the books and accounts of the company; and any auditor may, in relation to such books and accounts, examine the directors or

any other officer of the company: Provided that if a banking company has branch banks beyond the limits of Europe, it shall be sufficient if the auditor is allowed access to such copies of and extracts from the books and accounts of any such branch as may have been transmitted to the head office of the banking company in the United Kingdom.

(6) The auditor or auditors shall make a report to the members on the accounts examined by him or them, and on every balance sheet laid before the company in general meeting during his or their tenure of office; and in every such report shall state whether, in his or their opinion, the balance sheet referred to in the report is a full and fair balance sheet properly drawn up, so as to exhibit a true and correct view of the state of the company's affairs, as shown by the books of the company; and such report shall be read before the company in general meeting.

(7) The remuneration of the auditor or auditors shall be fixed by the general meeting appointing such auditor or auditors, and shall be paid by the company.

8. Every balance sheet submitted to the annual or other meeting of the members of every banking company registered after the passing of this Act as a limited company shall be signed by the auditor or auditors, and by the secretary or manager (if any), and by the directors of the company, or three of such directors at the least.

9. On the registration, in pursuance of this Act, of a company which has been already registered, the registrar shall make provision for closing the former registration of the company, and may dispense with the delivery to him of copies of any documents with copies of which he was furnished on the occasion of the original registration of the company; but, save as aforesaid, the registration of such a company shall take place in the same manner and have the same effect as if it were the first registration of that company under the Companies Acts, 1862 to 1879, and as if the provisions of the Acts under which the company was previously registered and regulated had been contained in different Acts of Parliament from those under which the company is registered as a limited company.

10. A company authorised to register under this Act may register thereunder and avail itself of the privileges conferred by this Act, notwithstanding any provisions contained in any Act of Parliament, royal charter, deed of settlement, contract of copartnery, cost book, regulations, letters patent, or other instrument constituting or regulating the company.

PART IV

THE WAR AND POST-WAR PERIOD

THE BANK OF ENGLAND ON THE EVE OF WAR, 1910

INTERVIEW BETWEEN THE GOVERNOR AND DIRECTORS OF THE BANK OF ENGLAND AND THE NATIONAL MONETARY COMMISSION (U.S.A.), 1910

(*See* Senate Document, No. 405, 61st Congress, 2nd Session.)

. . . . . .

Q. Describe the organization and management of the bank, stating the number of officers and directors with their respective functions, and for what periods and by whom they are elected?

A. The supreme control of the affairs of the bank rests with the governor, deputy governor, and court of 24 directors, who are elected annually by the stockholders. It is customary for a governor and deputy governor, at the close of their first year of office, to be re-elected to the same positions for a further term of one year, and a deputy governor is usually elected to the office of governor immediately on vacating the former position after the completion of a two years' tenure of that appointment. The governor, whilst directing the general policy of the bank and supervising and controlling the whole of its affairs, devotes his attention more especially to the business of the head office, whilst the deputy governor concerns himself more particularly with the business of the branches and with the upkeep and maintenance of the bank's various premises.

The directors, in addition to attending the weekly meetings of the court, serve on various committees appointed by that body.

As regards organisation, it will probably suffice to say that the bank is divided into two great departments:

1. That under the chief accountant, who is responsible for the management of the stocks forming the national debt and other registered stocks—home, Indian, colonial, etc. He also keeps the bank's own accounts.

2. That under the chief cashier, who has charge of the issue

and payment of notes and all banking business, such as drawing accounts, loans, discounts, and all other matters involving dealings in cash.

There are also the secretary's department and the audit department, the titles of which sufficiently indicate the duties respectively performed by them.

Q. Is it customary to re-elect directors at the expiration of their terms?

A. It is customary for directors to be re-elected.

Q. Is there any custom restricting the class from which the directors may be selected?

A. There is no legal restriction as to the class from which directors may be selected, except that they must be 'natural-born subjects of England, or naturalized', but in actual practice the selection is confined to those who are, or have been, members of mercantile or financial houses, excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom.

Q. How frequently do the directors meet?

A. The court of directors meets once a week. Subsidiary committees are held as required.

. . . . . .

Q. To what do you attribute the weekly and seasonal fluctuations in the amount of outstanding notes, and are these fluctuations constant from year to year?

A. The active circulation, or total of notes held by the public, generally reaches its maximum and minimum at the following times:

	Maximum.	*Minimum.*
1. Weekly	Monday or Friday.	Saturday.
2. Quarterly	Beginning and end of quarter (at third quarter at beginning of August in addition).	Middle of quarter.
3. Yearly	Beginning of August.	Middle of February.

These variations may be explained thus:

1. *Weekly*.—There has been a steady reduction of late years

in the volume of business conducted in London on Saturdays, and the amount of the notes withdrawn from the bank on that day is now as a general rule very much less than on the other days of the week. The balance outstanding at the close of the day generally shows, therefore, a material shrinkage.

On Mondays notes are withdrawn in larger quantities than usual in order to replenish tills after the reduction in the amounts held on the previous Saturday, whilst on Fridays also the withdrawals are above the average to meet the demands occasioned by weekly payments, such as wages, etc.

2. *Quarterly*.—The increased total at the close of each quarter is occasioned by withdrawals to meet payments due on the four quarter days, Lady Day, Midsummer, Michaelmas, and Christmas.

3. *Yearly*.—The large total at the beginning of August—of late years generally the maximum for the year—is due to withdrawals for holiday and harvest purposes, whilst the low figures which usually occur in the middle of February may be attributed to the absence of any holiday demand, and to the fact that reaction after Christmas, coupled with the comparative absence of visitors to London, causes the retail trade to be less active than in the second and fourth quarters.

. . . . . .

Q. Referring to the weekly statement of your banking department, dated August 12, 1908, you show public deposits, £5,145,638. Will you explain the character of these deposits, stating in general from what departments they are received?

A. The term 'public deposits' denotes balances held on accounts controlled by the various departments of the British Government, such as—

The exchequer, the commissioners for the reduction of the national debt, the customs and inland revenue, the paymaster-general, the post-office, the supreme court of judicature, etc.

Q. Does the Government have accounts with other banks?

A. Subsidiary accounts are opened with other banks on behalf of collectors of customs and excise, military and naval district paymasters, local postmasters, prison authorities, and officials of

that character in localities where there is no branch of the Bank of England within convenient proximity.

Q. Do you allow interest upon these deposits?—A. No.

Q. Are you required to furnish security for them?—A. No.

Q. Approximately to what extent do the public deposits fluctuate from time to time during the year, and can the extent of these fluctuations be predicted?

A. The difference between the maximum and minimum totals in recent years has amounted to sums varying between £10,000,000 and £15,000,000. These fluctuations can to some extent be predicted.

Q. You show 'Other deposits, £45,546,992'. Will you tell us in a general way from whom these deposits are received? Do they include deposits received from banks, merchants, and individuals?—A. Yes.

Q. Do you allow interest upon any of these deposits?—A. No.

Q. Are they subject to considerable fluctuations, and are these fluctuations regularly recurrent?

A. Regarded as a whole they are subject to considerable fluctuations; under certain heads fluctuations occur more or less regularly, whilst in others little variation takes place.

Q. Are all of these deposits payable on demand?—A. Yes.

Q. Do you at any time allow interest on special deposits?

A. It is not the practice of the bank to allow interest on any deposit.

Q. Will you describe the item 'Seven-day and other bills'?

A. These are commonly known as 'bank post bills', a form of draft issued by the bank and drawn upon itself at 7 and 60 days' sight in exchange for cash. These bills were at one time much used for making remittances by post, more especially to the Continent, where they pass readily much in the same way as Bank of England notes. Of recent years the demand has greatly decreased and the total of the bills issued becomes smaller year by year.

Q. In the statement of assets what constitutes the item 'Government securities, £15,532,293'?

A. All securities of the British Government, or bearing the guaranty of the British Government, held by the bank as investments and all temporary advances made to the British Government.

Q. Is it your custom to carry in your banking department about this amount in government securities?

A. While a considerable amount is always invested in government securities, there is no rule or fixed ratio.

Q. What proportion of the item, 'Other securities, £27,737,982,' represents bills discounted, and what proportion represents loans on collateral?

A. The details of this total are not made public.

Q. What, if any, other securities except these are included in the item?

A. All securities held as investments other than those described as ' government securities '.

Q. Can you state approximately the average length of time and the average size of bills discounted by you?

A. Time, forty to fifty days; size, probably about £1,000.

Q. Is the character of your discounts or loans regulated or restricted by law or fixed by the statutes of the bank?

A. Regulated by the court of directors from time to time.

Q. Will you state (*a*) the class of bills usually discounted by you, giving the number of names required; (*b*) the minimum size; and (*c*) the maximum length of time to run?

A. (*a*) Two British names, of which one must be the acceptor; (*b*) no minimum; (*c*) four months, exceptionally six.

Q. What classes of collateral are accepted by you for loans?

A. The various classes of marketable securities quoted on the London Stock Exchange, with the exception of mining shares, are accepted; also, with discretion, good securities, not so quoted, when their value can be ascertained.

Q. Will you state approximately the average length of time and the average size of loans on collateral?

A. Such loans are granted for periods varying from seven days

to three months, subject to possible renewal, and vary in amount from £100 to hundreds of thousands of pounds.

Q. What is the distinction between what are known as ' prime bills ' and other bills?

A. A ' prime ' bill we should define as a bill accepted by a London or provincial bank in first-class credit or a merchant or merchant banker of the first class whose business it is to grant credits.

Q. Do you discount any but prime bills?—A. Yes.

Q. What is the usual difference in the rate charged by you upon a prime bill and for a high-class loan secured by collateral having the same period to run?

A. It is impossible to give a precise answer to this question.

Q. What is the difference between a trade bill and a finance bill—is the rate the same on each?

A. A trade bill is a bill made to liquidate an actual commercial transaction. The rate for such a bill would be entirely governed by the credit of the names upon it and would range from the lowest market rate of the day up to bank rate or even over. There are many classes of bills which may be called finance, e.g. (*a*) representing exchange transactions; (*b*) made to carry stocks of goods or securities; (*c*) made in anticipation of public loans; (*d*) accommodation bills, pure and simple.

(*a*), (*b*), and (*c*) are bills which, if accepted by a first-class bank or merchant house, would usually command the fine market rate for prime bills to a customer of the bank. Bills to which the term ' finance ' is usually applied are, however, those under (*d*).

Q. Do you discount to any considerable amount for individuals and merchants?

A. The bank discounts all approved bills offered to it by persons or firms having properly constituted accounts.

Q. Is it your custom to employ surplus funds in purchase of bills from discount houses?—A. No.

Q. Do you rediscount bills for the joint stock or other banks?

A. The bank is always prepared to rediscount for other banks at its official rate, and does a large business from time to time with the colonial and foreign exchange banks who are from the

nature of their business always sellers of bills. The London Clearing and West End banks who are ordinarily buyers of bills and not sellers do practically no discount business with the bank.

Q. What changes have taken place from time to time in the character of the bills you accept for discount from discount houses and what was the purpose and effect of the changes?

A. The *currency* of bills accepted for discount is from time to time regulated by resolutions of the court of directors, and varies constantly (within the limits so laid down) at the discretion of the governor, who is guided by the existing condition of the market. As regards the class of bills accepted no particular change has taken place of late years.

Q. Is the rate for discount at your branches for customers' paper and for prime bills the same as at the central office?

A. The rates current in London are telegraphed each morning to the branches for their guidance.

Q. What are the rules governing purchase by you of foreign bills?

A. The bank does not buy foreign bills.

Q. Will you explain the difference between a foreign and a domiciled bill?

A. A foreign bill is a bill accepted payable abroad. A domiciled bill is a bill drawn on a foreigner residing abroad but accepted by him payable in London.

Q. Is it your custom to discount any bills payable in foreign countries?—A. No.

Q. Do you sometimes purchase 'prime bills' in the market at a lower rate than bank rate?

A. The bank does not purchase bills in the market.

Q. Would you charge a merchant house having a good account with you the bank rate or the market rate for prime bills?

A. The market rate.

Q. To what extent does the bank rate govern your discount and loan transactions?

A. The rates for discount and loan transactions at the bank usually approximate more or less closely to the bank rate.

Q. Is the amount of accommodation extended by you to discount houses or others predicated upon the amount and character of balances carried with you or governed by the necessities of the general situation?

A. As regards discount houses and money dealers, by the necessities of the general situation, modified to some extent by the credit of the individual borrower. As regards others, the credit of the borrower would chiefly govern the amount of accommodation given, while the character of his account would affect the rate charged.

Q. Do you at times discount bills for parties having no account with you?—A. No.

Q. Are a considerable number of your loans on call?—A. None.

Q. Do you allow overdrafts, or do you make any advances of the kind made by Scotch banks, called ' cash credits '?

A. Except in special circumstances overdrafts are not allowed by the bank. The bank does not make advances of the kind termed ' cash credits ' in Scotland.

Q. In view of the fact that you receive accounts from corporations, merchants, and individuals, and discount for them, are you not in a measure a competitor for business with the joint stock banks?—A. In a sense; yes.

Q. Is the bank, through its branches, employed by other banks to any considerable extent for the transfer of funds from one city to another?

A. Large sums are constantly transferred both by means of letter and telegram between London and the larger branches on account of the other banks, but not to any considerable extent between one branch and another.

Q. What specific services are rendered by the bank to the Government in connection with the management of the public debt, and as a depositary of public funds?

A. The bank performs the following specific services in connection with the management of the various stocks, bond issues, etc., forming the national debt.

1. The entire conduct of all operations incidental to any issue of stock;

2. The keeping of the stock ledgers and transfer books relating to inscribed stock;

3. The issue of stock certificates to bearer;

4. The preparation and payment of dividends on stock and the payment of stock certificate coupons;

5. The issue and payment of treasury bills and exchequer bonds; and as depositary of the public funds it keeps the banking accounts of all the various government departments, receiving money, paying drafts and holding securities, as in the case of ordinary banking accounts. It facilitates the transmission of revenue moneys from the provinces, and acts as the medium for the issue of gold and silver coin and for the withdrawal of light coin from circulation. It also grants temporary advances to the Government in accordance with regulations sanctioned by Parliament.

Q. Does the bank receive any compensation for such services?

A. The bank is remunerated for its services to the Government under an arrangement extending over a term of years. From time to time this arrangement is carefully considered in all its bearings by both parties, and fresh conditions are settled as circumstances may demand.

Q. You show in your statement, 'Notes, £23,838,855; gold and silver coin, £1,636,258', being 50 per cent. of your deposit liabilities. Is there any general rule of the bank with reference to the percentages of cash reserve held in the banking department against deposit liabilities?—A. No.

Q. Do the banks in England, Scotland, and Ireland have balances with you, and are these balances regarded as a very important part of their cash reserves?

A. All the large London banks, most of the Scotch and some of the Irish banks have accounts with the Bank of England. Provincial English banks and branches of London banks in towns where the Bank of England have branches have local accounts with the bank. As to the balances maintained on these accounts, the question of their importance in relation to their cash reserves is rather one for the banks themselves to answer.

Q. Can you estimate the percentage of cash (coin and notes),

the deposit liabilities in all the banks in England, including the banking department of the Bank of England?

A. No; because only in a few cases are coin and notes recorded as a separate item in balance sheets.

Q. How and by whom is the bank rate fixed?

A. The bank rate is fixed at the weekly meeting of the court of directors, but the governor has power to raise the rate at any intermediate time, should circumstances in his opinion render such a course necessary.

Q. When and under what conditions is the bank rate changed?

A. The bank rate is raised with the object either of preventing gold from leaving the country, or of attracting gold to the country, and lowered when it is completely out of touch with the market rate and circumstances do not render it necessary to induce the import of gold.

Q. Is any notice given in advance of an intended change?

A. No.

Q. Do you regard prompt and adequate increase in the bank rate as the most effective measure to protect the bank's reserves.

A. Yes.

Q. Does the raising of the bank rate ever fail to attract gold and change the course of the exchanges?

A. Experience seems to prove that the raising of the bank rate to a sufficient level never fails to attract gold, provided the higher rate is kept effective.

Q. How do you account for the fact that at times a higher bank rate in England fails to attract gold from the Continent when lower rates prevail there?

A. Because there is no gold market on the Continent so free as the London market and the continental markets frequently do not release gold for export until the rate in London has reached a figure which threatens disturbance to their own financial position.

Q. Is the raising of the bank rate more effective in controlling gold movements now than at the time of the last suspension of the bank act in 1866?—A. Yes.

Q. To what do you attribute this increased efficiency?

A. To the increased and more rapid means of intercommunication between financial centres.

Q. What effect did raising the rate in the period from October, 1907, to January, 1908, have upon the bank's gold supply?

A. On the 15th August, 1907, the bank rate was raised to $4\frac{1}{2}$ per cent. and so continued till the 31st October, when it was further raised to $5\frac{1}{2}$ per cent. On the latter date the total bullion held by the bank was £31,700^{m} and the proportion of reserve to deposits 39·9 per cent. On the 4th November, owing to further withdrawals of gold, the governor, acting on his powers, raised the rate to 6 per cent. On the 7th November the court of directors raised the rate to 7 per cent., the total bullion being £28,700^{m} and the proportion 35·2 per cent. Thenceforward the inflow of gold was greater than the outflow, thus demonstrating the power of an effective increase of rate. On the 11th December the total bullion was £34,100^{m} and the proportion 47 per cent. At the end of January, by which time the rate had been gradually reduced to 4 per cent., the total bullion was £38,500^{m} and the proportion 56·6 per cent.

Q. From how many countries did the bank receive gold as a result of the increase at that time?

A. Twenty-four, including British colonies.

Q. If the maximum rate of 7 per cent. fixed by the bank had not been sufficient to attract gold, would the rate have been further increased?—A. Yes.

Q. Do you take other steps in addition to raising the bank rate to protect gold in times of crisis?—A. Yes.

Q. Is it customary at such times to advance money without interest to importers of gold to cover the time required in transportation?

A. At such a time facilities for bringing gold have been given in the shape of free advances during transit, adequate security having been lodged.

Q. Is it the practice of the bank in times of stress to discount bills of a satisfactory character for its customers freely?

A. At such times the bank is always ready to discount bills of a satisfactory character for its customers or for the market.

Q. Is it the policy of the bank to discriminate against finance bills in times of financial crises?

A. The bank always discriminates against 'accommodation' bills pure and simple, but in times of financial crises each case would be considered on its merits.

Q. Does the understood policy of the Bank of England to advance bank rates rapidly and at the same time to extend liberal credit in times of serious financial trouble meet with general approval in business and banking circles?

A. This is a question more for the general public to answer, but it is believed that on the whole the action of the bank during the autumn of 1907 met with general approval.

Q. Does the bank sometimes borrow money in the open market for the purpose of raising the market rate?—A. Yes.

Q. Do you sometimes sell consols for the same purpose?

A. Yes; on rare occasions.

Q. What are the provisions of law with reference to the purchase of gold by the bank?

A. Under the act of 1844 all persons are entitled to demand notes in exchange for bar gold at the rate of £3 17*s*. 9*d*. per ounce standard, subject to such gold being melted and assayed at the expense of the seller by persons approved by the bank.

. . . . . .

Q. Does the bank under some conditions advance its rate for gold purchases?—A. Yes.

Q. Under what circumstances and to what extent does the bank charge a premium for gold bullion or foreign coin?

A. When there is a demand for either gold bullion or foreign coin for export to another country the bank follows the same rule as the seller of any ordinary commodity.

Q. Is the gold purchased by the bank sent to the mint or deposited in the issue department and notes issued against it?

A. In the first instance such gold is held in the issue depart-

ment; later it may be sent to the mint as required for purposes of coinage, or sold. Until sold notes can be issued against it.

Q. Is London the only free market for gold in Europe?

A. In practice; yes.

Q. Do the joint stock and other banks rely upon the reserves of the banking department of the Bank of England as their ultimate resource in case of trouble?—A. Yes.

Q. Do you favour an increase in the fiduciary note circulation?—A. No.

Q. If not, what is the reason for your objection?

A. Our objection is based principally on the opinion that if there were £1 notes in circulation they would take the place of gold in the pockets of the people and thus tend indirectly to drive gold from the country.

Q. Does the proposition for a secondary gold reserve meet with approval?

A. The question of a secondary gold reserve is one upon which no definite agreement has so far been reached.

Q. Is it desirable that bank reserves generally should be strengthened?—A. Probably.

Q. Has the experience of the United Kingdom with reference to note issues under the legislation of 1844 and 1845 been satisfactory?

A. Yes; we think it may truly be said that the system has been highly satisfactory.

Q. With respect to the monopoly of notes issue, are any modifications or amendments to the bank act suggested; and, if so, what is the nature of the proposals?

A. We are not aware that any modifications or amendments have been seriously proposed.

Q. Is there any substantial demand for what we in America call ' greater elasticity ' in volume of currency (notes and coin) to answer business demands?—A. No.

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THE CURRENCY AND BANK NOTES ACTS, 1914

4 & 5 GEO. V, c. 14

An Act to authorise the issue of Currency Notes, and to make Provision with respect to the Note Issue of Banks. (6th August 1914.)

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

1. (1) The Treasury may, subject to the provisions of this Act, issue currency notes for one pound and for ten shillings, and those notes shall be current in the United Kingdom in the same manner and to the same extent and as fully as sovereigns and half-sovereigns are current and shall be legal tender in the United Kingdom for the payment of any amount.

(2) Currency notes under this Act shall be in such form and of such design and printed from such plate and on such paper and be authenticated in such manner as may be directed by the Treasury.

(3) The holder of a currency note shall be entitled to obtain on demand, during office hours at the Bank of England, payment for the note at its face value in gold coin which is for the time being legal tender in the United Kingdom.

(4) The Treasury may, subject to such conditions as to time, manner, and order of presentation as they think fit, call in any currency notes under this Act on paying for those notes at their face value in gold.

(5) Currency notes under this Act shall be deemed to be bank notes within the meaning of the Forgery Act, 1913, and any other enactment relating to offences in respect of bank notes which is for the time being in force in any part of the British Islands, and to be valuable securities within the meaning of the Larceny Act, 1861, and any other law relating to stealing which is for the time being in force in any part of the British Islands, and to be current

coin of the realm for the purpose of the Acts relating to truck and any other like enactment.

(6) For the purpose of meeting immediate exigencies all postal orders issued either before or after the passing of this Act shall temporarily be current and legal tender in the United Kingdom in the same manner and to the same extent and as fully as current coins, and shall be legal tender in the United Kingdom for the payment of any amount.

The holder of any such postal order shall be entitled to obtain on demand, during office hours at the Bank of England, payment for the postal order at its face value in any coin which is for the time being legal tender in the United Kingdom for the amount of the note.

Provisoes (*b*) and (*c*) to sub-section (1) of section twenty-four of the Post Office Act, 1908, shall not apply to any such postal orders.

2. Currency notes may be issued to such persons and in such manner as the Treasury direct, but the amount of any notes issued to any person shall, by virtue of this Act and without registration or further assurance, be a floating charge in priority to all other charges, whether under statute or otherwise, on the assets of that person.

3. The governor and company of the Bank of England and any persons concerned in the management of any Scottish or Irish bank of issue may, so far as temporarily authorised by the Treasury and subject to any conditions attached to that authority, issue notes in excess of any limit fixed by law; and those persons are hereby indemnified, freed, and discharged from any liability, penal or civil, in respect of any issue of notes beyond the amount fixed by law which has been made by them since the first day of August nineteen hundred and fourteen in pursuance of any authority of the Treasury or of any letter from the Chancellor of the Exchequer, and any proceedings taken to enforce any such liability shall be void.

4. Any bank notes issued by a bank of issue in Scotland or Ireland shall be legal tender for a payment of any amount in Scotland or Ireland respectively, and any such bank of issue shall not be under any obligation to pay its notes on demand except at the

head office of the bank, and may pay its notes, if thought fit, in currency notes issued under this Act:

Provided that notes which are legal tender under this section shall not be legal tender for any payment by the head office of the bank by whom they are issued for the purpose of the payment of notes issued by that bank.

This section shall have effect only until His Majesty by proclamation revokes the same, and any proclamation revoking this section may provide for the calling in or exchange of notes affected thereby.

5. (1) In this Act, the expression 'bank of issue' means any bank having power for the time being to issue bank notes.

(2) This Act may be cited as the Currency and Bank Notes Act, 1914.

(3) This Act shall apply to the Isle of Man as if it were part of the United Kingdom, but shall not apply to any other British possession.

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4 & 5 GEO. V, c. 72

An Act to amend the Currency and Bank Notes Act, 1914. (28th August 1914.)

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

1. The power of the Treasury to call in currency notes under subsection (4) of section one of the Currency and Bank Notes Act, 1914, shall be extended so as to include a power to call in currency notes, on exchanging the notes so called in, for other notes of the same face value issued under that Act.

2. The Treasury may, if they think fit, instead of issuing any notes to any person, give to that person a certificate entitling him to the issue, on demand from the Treasury, of the notes mentioned in the certificate; and the notes covered by the certificate shall, for the purposes of section two of the Currency and Bank Notes Act, 1914, be deemed to be notes issued to that person.

3. This Act may be cited as the Currency and Bank Notes (Amendment) Act, 1914.

REPORT OF THE TREASURY COMMITTEE ON BANK AMALGAMATIONS, 1918.

TO THE LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY.

1. We, the undersigned Committee, appointed by Treasury Minute of the 11th March last, beg to submit our report to Your Lordships.

2. We have held eight meetings, and have examined the following witnesses, viz.:—

Sir E. Holden, Bart., Chairman and Managing Director of the London City and Midland Bank,
Professor H. S. Foxwell, Professor of Political Economy in the University of London,
Mr. O. C. Quekett, Chairman of the Stock Exchange Committee,
Mr. Henry Bell, Director and General Manager of Lloyds Bank,
Mr. Gaspard Farrer, of Baring Bros. and Co., Ltd.,
Mr. Harold Snagge, of Messrs. E. Boustead & Co.,
Mr. J. F. Darling, General Manager of the London Joint Stock Bank,
Mr. Beaumont Pease, Deputy Chairman of Lloyds Bank,
Mr. Oswald Stoll,
Mr. Thomas Goodwin, Manager of the Co-operative Wholesale Society's Bank,
Mr. Sidney Webb,
Mr. A. W. Flux, of the Board of Trade,
Sir Charles Addis, of the Hong Kong and Shanghai Banking Corporation, Ltd.,
Sir Herbert Hambling, Chairman of the London and South-Western Bank,
Mr. Christopher Nugent, of the Union Discount Company of London, Ltd.,
Viscount Cowdray,
Mr. Gordon Selfridge,

Sir James Hope Simpson, General Manager of the Bank of Liverpool, Ltd.,

Mr. T. B. Johnston, of Messrs. Pountney & Co., Ltd., Bristol,

Lord Inchcape, Director of the National Provincial and Union Bank of England, Ltd.,

Mr. Walter Leaf, Chairman of the London County, Westminster and Parr's Bank, Ltd., and

Mr. D. Drummond Fraser, Joint Managing Director of the Manchester and Liverpool District Banking Co., Ltd.

We have also received a number of communications in writing from gentlemen in various parts of the country, in response to a notice which we inserted in the press inviting representations from the public generally. Unfortunately, time did not permit of our taking oral evidence from more than a limited number of witnesses.

3. Bank absorptions and amalgamations are, of course, no new phenomenon in this country. About 300 instances have occurred in the past, more than half of which have taken place in the last 50 years. In one or two cases arrangements made provisionally for amalgamations have been defeated by the opposition of local customers of the bank which it was proposed to absorb; but, on the whole, banking policy has gradually but steadily pursued the path of consolidation and absorption, and, until recently, the amalgamations effected have, generally speaking, been carried through without stirring up serious opposition or arousing public interest. As a result, the number of private banks has fallen from 37 to 6 since 1891, and the number of English joint stock banks from 106 to 34 during the same period.

4. Several recent amalgamations, however, have undoubtedly provoked an unusual amount of interest, and have been seriously criticised in certain quarters. This change in public opinion appears to be due mainly to the fact that amalgamations have changed their type and consist no longer in the absorption of a local bank by a larger and more widely spread joint stock bank, but in the union of two joint stock banks, both already possessing large funds and branches spread over a wide area. These two

types of amalgamation differ very materially from one another, and arguments used to justify the former type do not necessarily apply to the latter.

THE OLD TYPE OF AMALGAMATION—ABSORPTION OF LOCAL BANKS BY A LARGER AND MORE WIDELY SPREAD JOINT STOCK BANK.

5. As modern amalgamations are mainly of the new type, it is unnecessary for us to elaborate the various arguments used in connection with amalgamations of the older type. Very briefly, what the arguments amount to is that both the local (or more or less local) bank and the larger widely-spread bank secure to their customers certain advantages of a different kind, but that, like other institutions, each has also the defects of its qualities. Some districts—notably Lancashire and Yorkshire—have clung to their local banks. But in most instances amalgamation schemes have been carried out without serious difficulty, and if material hardship had resulted to the trade generally in the districts affected, there would no doubt have been greater local opposition to subsequent absorption schemes, and new local banks would even have been opened.

THE NEW TYPE OF AMALGAMATION—UNION OF ONE LARGE JOINT STOCK BANK WITH ANOTHER SIMILAR BANK.

6. As regards the new type of amalgamation, the main arguments laid before us in support of the policy of amalgamation are as follows:—

(*a*) *The convenience and gain to Trade secured by an extension of Bank areas.*—Just as the large banks of the past secured certain advantages to trade by collecting deposits from parts of the country where they were not required, and placing them at the disposal of other parts which stood in need of advances, so it is claimed that this process can be carried still further with advantage by amalgamating large banks with one another.

This is no doubt true, though, of course, the degree to which an extension of area is in fact secured by amalgamating banks differs considerably in each case. The following table is an

analysis of two recent amalgamations and one proposed amalgamation in this respect:—

TABLE I.

NUMBERS IN 1918 (IN ROUND FIGURES).

		London Branches.	Provincial Branches (excluding Sub-Branches and including only one Branch in each Place).	Foreign Agencies held.
(*a*)	National Provincial	26	251	31
	Union of London and Smith's	31	78	150
(*b*)	London County and Westminster	110	180	400
	Parr's	35	160	35
(*c*)	London City and Midland	107	419	850
	London Joint Stock	41	109	70

Note.—In London an amalgamation can secure no material extension of area, and usually means a net reduction in the number of competing banks in the City, as all other important competitors are already represented there and cannot therefore, as is sometimes the case in other districts, add a new element of competition to counterbalance the amalgamation. Should no such new element arise, there will be a similar net reduction in the number of competing banks in nearly all the most important towns outside London at which the second of the two banks was represented in cases (*a*) and (*c*) above, as the first bank in each case was established at most of them already. As regards the provinces generally, excluding sub-branches and sub-agencies, in the above cases the first bank in each case secured the following number of new places out of the total number taken over, viz., (*a*) 51 (out of 78), (*b*) 152 (out of 160), (*c*) 54 (out of 109). In cases (*a*) and (*c*) very few of the new places secured were in towns of importance. The 55 overlapping places in case (*c*) include such towns as Barnsley, Barrow, Darlington, Doncaster, Gateshead, Grimsby, Hull, Leeds, Middlesbrough, Newcastle, Portsmouth, Sheffield, West Hartlepool and York; and in case (*a*) the 27 overlapping places included Bath, Birmingham, Bournemouth, Bradford, Brighton, Bristol, Derby, Doncaster, Exeter, Grimsby, Huddersfield, Hull, Leeds, Lincoln, Nottingham, Plymouth, Sheffield, Southampton and York.

It should be added that, in case (*c*), in addition to the branches shown above, the Joint Stock Bank have 106 sub-branches in small places where they have no branch, and that in only about nine of those places are the City and Midland represented. Similarly, the Union of London and Smith's had a number of sub-branches in small places, at most of which the National Provincial were not represented.

There must come a point when the policy of substituting one large bank for two will usually mean a very small extension of area, if any, and some reduction of competition. That point has already been reached in London, and is being approached in a few of the largest towns where most of the important competing banks are already established.

It should be added that if both the amalgamating units have, before amalgamation, lent up to their full resources, home trade *as a whole* cannot gain any increase in accommodation as a result of the amalgamation. Except at the expense of smaller traders, large trade combines could not obtain larger advances in all from the combined resources of the amalgamation than they obtained from the separate banks before.

(*b*) *The argument from size.*—Numerous representations have reached us to the effect that large banks are better for traders, and particularly for large traders, than small banks because, with their larger resources, they can safely make individual advances on a more generous scale. And it is argued that banks must grow now to keep pace with the growth in size of business houses generally, and to enable them to deal with the demands of after-the-war trade both at home and abroad.

This is an important point. Various Government Committees have drawn special attention to the question of banking facilities after the war, and it is very desirable that all possible steps should be taken to adapt the banking interest to the new position which will then arise. The point, however, with regard to the size of banks is one of degree only, and it is a question whether the continued practice on the part of exceptionally large firms of resorting to two or more banks, instead of one, for advances would not suffice to meet all their needs, and whether the existing large banks are not in fact large enough to meet the requirements of the immediate future, at any rate if supplemented, as far as may be necessary, by combinations for special purposes on the lines of German ' Konsortiums ' or otherwise. We have received no conclusive evidence on this point. But the following table shows, at any rate, that the resources of our leading banks were very substantial even before the recent amalgamations:—

TABLE II.

PAID-UP CAPITAL, RESERVE and DEPOSITS of the following Banks as shown in their BALANCE SHEETS of 31st December 1913 and 31st December 1917.

	31st December 1913.	31st December 1917.
	£	£
London City and Midland	101,882,230	230,083,434
London County and Westminster, Parr's	143,000,000	228,000,000
National Provincial, Union of London and Smith's	118,864,590	185,223,173
Lloyds	98,720,663	183,076,718
	June 1914.	
Barclays	66,940,267	135,675,971
	31st December 1913.	
London Joint Stock	41,678,237	62,274,280

The above argument with regard to post-war trade can of course only be used with some caution as regards foreign trade, in view of the special dependance of English banks on deposits withdrawable at call or on short notice. This is especially the case as regards long-term advances for such trade, to which special reference is sometimes made. The following figures, taken from the 'Economist', show how comparatively small are the capital and reserves of English joint stock banks:—

TABLE III.

	Paid-up Capital and Reserves.	Deposits.	Ratio.
	Million £	Million £	Per cent.
1890	68	369	18
1895	69	456	15
1900	79	587	13
1905	82	628	13
1910	81	721	11
1915	82	993	8
1917	84	1,365	6

7. We have endeavoured to review impartially the arguments which have been put forward as justifying the necessity in the

public interest—quite apart from questions of profit to shareholders—of bringing about the new type of bank amalgamation. There is undoubtedly much weight in these arguments as far as they go. And even if the absolute *necessity* of large new amalgamations is not clearly proved, yet the absence of proof of the public necessity for business re-organisations is not, in itself, any reason for objecting to them, and it is a serious step at any time to interfere with the natural developments of trade. Before, therefore, considering any restrictive proposals, we endeavoured to ascertain what is the real basis of the fears—often vaguely felt, and vaguely expressed—which have undoubtedly been aroused by recent amalgamation schemes. The main grounds for objecting to further amalgamations appear to be as follows:—

(*a*) *Writing down of Bank Capital.*—The proportion of capital to deposits is now so small in the case of English joint stock banks, even excluding the temporary war increase in the amount of deposits, that any further shrinkage of bank capital is clearly undesirable, in the interest of depositors, if it can be avoided. Attention has been drawn to the fact that amalgamation schemes usually mean a reduction in the total paid-up capital and uncalled liability of the two pre-amalgamation units. This has frequently been the case in the past, and it has also been a feature of recent amalgamations and proposed amalgamations. The amalgamation of the National Provincial Bank of England, Ltd., with the Union of London and Smith's Bank, Ltd., resulted in a reduction of over 1,000,000*l.*, or 16 per cent., in the total paid-up capital, and of over 9,000,000*l.*, or over 48 per cent., in the uncalled liability of the Union shareholders. The amalgamation of Parr's Bank, Ltd., with the London County and Westminster Bank, Ltd., while it resulted in an addition of 243,000*l.* to the total paid-up capital, brought about a reduction of nearly 1,770,000*l.*, or 17 per cent., in the uncalled liability of Parr's shareholders. The proposed amalgamation of the London City and Midland Bank, Ltd., with the London Joint Stock Bank, Ltd., would effect a reduction of nearly 1,000,000*l.* in the total paid-up capital, and of over 9,000,000*l.*, or over 50 per cent., in the uncalled liability of the Joint Stock Bank shareholders. In each of these three cases, therefore, substantial benefits to shareholders are purchased at

the expense of some of the security of the depositors. But the reduction of capital (as opposed to the reduction of uncalled liability) resulting in two of the cases appears to be only nominal, the sum written off, or some sum approximating to it, being added to the inner reserves, at any rate at present.

(*b*) *Dangers of reduced Competition.*—Although, in the past, we believe that amalgamations have not, in most instances, led to a reduction of bank competition, yet, as we have pointed out in paragraph 6 (*a*) above, in London (and possibly before long in certain large towns) amalgamations between large joint stock banks must now usually mean a net reduction in the number of competing banks. It is true that this reduction is only slight in each case, and that there still remain at present a fair number of competing banks. But we have received representations from certain municipal corporations to the effect that banks vary very much in their willingness to allow reasonable overdraft facilities to corporations, and that sufficient money, and cheap enough money, has only been obtained hitherto by resorting to different banks, the number of which is now falling steadily. On this ground a number of resolutions have been forwarded to us by corporations protesting against further amalgamations, and suggesting that it is not in the national interest that large funds belonging to the public should be in the hands of a few companies.

Strong representations have, on similar grounds, been made to us on behalf of the Stock Exchange and the Money Market. It is claimed that the world-wide fame of the London Market before the war was due to the freedom with which London bills could be negotiated, owing to the ease with which Discount Houses obtained ample funds from a wide number of banks, and that the fewer the lending constituents in the Discount Market, the less flexible is the market and the less fine the rates. It is added that the number of members in the Clearing House is already becoming very small, and that any further decrease in the number of its constituent members, or any greatly preponderant power on the part of particular members, might impair confidence in its smooth working and raise apprehensions in the market. Moreover, it is pointed out that a reduction in the number of important Banks must mean, and has already meant, a reduction in the

number of first-class acceptors of bills, and that if this reduction proceeded very far, it would become a question whether the Bank of England would not have to place a limit on the amount of acceptances which they would take from any particular bank doing a large accepting business, and whether Continental buyers would not limit the number of bills taken by them.

(*c*) *The Danger of Monopoly*.—It has been represented to us that there is a real danger lest one bank, by the gradual extension of its connections, may obtain such a position that it can attract an altogether preponderant amount of banking business; or, alternatively, lest two banks may approach such a position independently and then achieve it by amalgamation.

Any approach to a banking combine or Money Trust, by this or any other means, would undoubtedly cause great apprehension to all classes of the community and give rise to a demand for nationalising the banking trade. Such a combine would mean that the financial safety of the country, and the interest of individual depositors and traders, would be placed in the hands of a few individuals, who would naturally operate mainly in the interests of the shareholders. Moreover, the position of the Bank of England—which would, it may be assumed, stand outside any such Trust—would be seriously undermined by so overwhelming a combination, and the Bank might find it extremely difficult to carry out its very important duties as supporter and regulator of the Money Market. Any such result would, in our opinion, be a grave menace to the public interest.

Further, it has been represented to us that the Government of the day might not find it easy to adopt a course of which the combine, for its own reasons, disapproved.

While we believe that there is at present no idea of a Money Trust, it appears to us not altogether impossible that circumstances might produce something approaching to it at a comparatively early date. Experience shows that, in order to preserve an approximate equality of resources and of competitive power, the larger English banks consider it necessary to meet each important amalgamation, sooner or later, by another. If, therefore, the argument from size, referred to in paragraph 6 (*b*) above, is to prevail, it can only lead, and fairly rapidly, to the creation of

a very few preponderant combinations; and if those combinations amalgamated, or entered into a joint agreement as to rates and policy, &c., the Money Trust would immediately spring to birth.

8. Such are the main arguments laid before us against further amalgamations. Undoubtedly some of the dangers feared are somewhat problematical and remote, and we should very much have preferred to avoid the necessity for any interference by Government with the administration of banking. But on a careful review of all the above considerations, we are forced to the conclusion that the possible dangers resulting from further large amalgamations are material enough to outweigh the arguments against Government interference, and that, in view of the exceptional extent to which the interests of the whole community depend on banking arrangements, some measure of Government control is essential. Our conclusions on this point were confirmed by the resolution passed at the recent annual meeting of the Association of Chambers of Commerce, in which it was proposed that steps should be taken to guard against amalgamations, &c., shown to be injurious to commercial interests.

We therefore recommend that legislation be passed requiring that the prior approval of the Government must be obtained before any amalgamations are announced or carried into effect. And, in order that such legislation may not merely have the effect of producing hidden amalgamations instead, we recommend that all proposals for interlocking directorates, or for agreements which in effect would alter the status of a bank as regards its separate entity and control, or for purchase by one bank of the shares of another bank, be also submitted for the prior approval of the Government before they are carried out.

As general principles to be acted upon at present by the Government at its discretion, we would suggest that a scheme for amalgamating or absorbing a small local bank, or any scheme of amalgamation designed to secure important new facilities for the public or a really considerable and material extension of area or sphere of activity for the larger of the two banks affected, should normally be considered favourably, but that if an amalgamation scheme involves an appreciable overlap of area without securing

such advantages, or would result in undue predominance on the part of the larger bank, it should be refused. Consideration should also, in our opinion, be given to the question of the clerical labour —usually very large—involved by amalgamations during the war, and to the undesirability of permitting an unusual aggregation of deposits without fully adequate capital and reserves.

9. It only remains to make a suggestion as to which Government department or departments should be charged with the responsibility of approving or disapproving amalgamation schemes, &c., under our proposal above. On the whole, we think that the approval both of the Treasury and of the Board of Trade should be obtained and that legislation should be passed requiring the two departments to set up a special Statutory Committee to advise them, the members of which should be nominated by the departments from time to time, for such period as may seem desirable, and should consist of one commercial representative and one financial representative, with power to appoint an arbitrator, should they disagree.

10. We desire to place on record our deep sense of the obligations which we are under to our Secretary, Mr. C. L. Stocks, for the very valuable assistance he has rendered to us in our deliberations and in the preparation of our report.

COLWYN.
CUNLIFFE.
R. E. BECKETT.
HERBERT C. GIBBS.
ARTHUR A. HAWORTH.
R. V. VASSAR-SMITH.
J. S. PURCELL.
HENRY KESWICK.
H. MCGOWAN.
E. MANVILLE.
JOHN RAE.
DOUGLAS VICKERS.

C. L. STOCKS,
Secretary,
1*st May* 1918.

'THE CUNLIFFE LIMIT'

COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES AFTER THE WAR

FIRST INTERIM REPORT

To the LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY and the MINISTER OF RECONSTRUCTION.

Introduction.

My Lords and Sir,

1. We have the honour to present herewith an interim Report on certain of the matters referred to us in January last. In this Report we attempt to indicate the broad lines on which we think the serious currency difficulties which will confront this country at the end of the war should be dealt with. The difficulties which will arise in connexion with the Foreign Exchanges will be no less grave, but we do not think that any recommendations as to the emergency expedients which may have to be adopted in the period immediately following the conclusion of peace can usefully be made until the end of the war is clearly in sight and a more definite opinion can be formed as to the conditions which will then prevail. We propose also to deal in a later Report with questions affecting the constitution and management of the Bank of England, and with the applicability of the recommendations contained in this Report to Scotland and Ireland, in regard to which we have not yet taken evidence. We have therefore confined our enquiry for the present to the broad principles upon which the currency should be regulated. We have had the advantage of consultation with the Bank of England, and have taken oral evidence from various banking and financial experts, representatives of certain Chambers of Commerce and others who have particularly interested themselves in these matters. We have also had written evidence from certain other representatives of commerce and industry. Our conclusions upon the subjects dealt with in this Report are unanimous, and we cannot too strongly emphasise our opinion that the application, at the earliest possible date, of the main principles on which they are based is of vital

necessity to the financial stability and well-being of the country. Nothing can contribute more to a speedy recovery from the effects of the war, and to the rehabilitation of the foreign exchanges, than the re-establishment of the currency upon a sound basis. Indeed, a sound system of currency will, as is shown in paragraphs 4 and 5, in itself secure equilibrium in those exchanges, and render unnecessary the continued resort to the emergency expedients to which we have referred. We should add that in our inquiry we have had in view the conditions which are likely to prevail during the ten years immediately following the end of the war, and we think that the whole subject should be again reviewed not later than the end of that period.

The Currency System before the War.

2. Under the Bank Charter Act of 1844, apart from the fiduciary issue of the Bank of England and the notes of Scottish and Irish Banks of Issue (which were not actually legal tender), the currency in circulation and in Bank reserves consisted before the war entirely of gold and subsidiary coin or of notes representing gold. Gold was freely coined by the Mint without any charge. There were no restrictions upon the import of gold. Sovereigns were freely given by the Bank in exchange for notes at par value, and there were no obstacles to the export of gold. Apart from the presentation for minting of gold already in use in the arts (which under normal conditions did not take place) there was no means whereby the legal tender currency could be increased except the importation of gold from abroad to form the basis of an increase in the note issue of the Bank of England or to be presented to the Mint for coinage, and no means whereby it could be diminished (apart from the normal demand for the arts, amounting to about £2,000,000 a year, which was only partly taken out of the currency supply) except the export of bullion or sovereigns.

3. Since the passing of the Act of 1844 there has been a great development of the cheque system. The essence of that system is that purchasing power is largely in the form of bank deposits operated upon by cheque, legal tender money being required only

for the purpose of the reserves held by the banks against those deposits and for actual public circulation in connection with the payment of wages and retail transactions. The provisions of the Act of 1844 as applied to that system have operated both to correct unfavourable exchanges and to check undue expansions of credit.

4. When the exchanges were favourable, gold flowed freely into this country and an increase of legal tender money accompanied the development of trade. When the balance of trade was unfavourable and the exchanges were adverse, it became profitable to export gold. The would-be exporter bought his gold from the Bank of England and paid for it by a cheque on his account. The Bank obtained the gold from the Issue Department in exchange for notes taken out of its banking reserve, with the result that its liabilities to depositors and its banking reserve were reduced by an equal amount, and the ratio of reserve to liabilities consequently fell. If the process was repeated sufficiently often to reduce the ratio in a degree considered dangerous, the Bank raised its rate of discount. The raising of the discount rate had the immediate effect of retaining money here which would otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold and even reversing the stream.

5. If the adverse condition of the exchanges was due not merely to seasonal fluctuations, but to circumstances tending to create a permanently adverse trade balance, it is obvious that the procedure above described would not have been sufficient. It would have resulted in the creation of a volume of short-dated indebtedness to foreign countries which would have been in the end disastrous to our credit and the position of London as the financial centre of the world. But the raising of the Bank's discount rate and the steps taken to make it effective in the market necessarily led to a general rise of interest rates and a restriction of credit. New enterprises were therefore postponed and the demand for constructional materials and other capital goods was lessened. The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of com-

modities carried largely with borrowed money, being confronted with an increase of interest charges, if not with actual difficulty in renewing loans, and with the prospect of falling prices, tended to press their goods on a weak market. The result was a decline in general prices in the home market which, by checking imports and stimulating exports, corrected the adverse trade balance which was the primary cause of the difficulty.

6. When, apart from a foreign drain of gold, credit at home threatened to become duly expanded, the old currency system tended to restrain the expansion and to prevent the consequent rise in domestic prices which ultimately causes such a drain. The expansion of credit, by forcing up prices, involves an increased demand for legal tender currency both from the banks in order to maintain their normal proportion of cash to liabilities and from the general public for the payment of wages and for retail transactions. In this case also the demand for such currency fell upon the reserve of the Bank of England, and the Bank was thereupon obliged to raise its rate of discount in order to prevent the fall in the proportion of that reserve to its liabilities. The same chain of consequences as we have just described followed and speculative trade activity was similarly restrained. There was therefore an automatic machinery by which the volume of purchasing power in this country was continuously adjusted to world prices of commodities in general. Domestic prices were automatically regulated so as to prevent excessive imports; and the creation of banking credit was so controlled that banking could be safely permitted a freedom from State interference which would not have been possible under a less rigid currency system.

7. Under these arrangements this country was provided with a complete and effective gold standard. The essence of such a standard is that notes must always stand at absolute parity with gold coins of equivalent face value, and that both notes and gold coins stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all countries possessing an effective gold standard are maintained at or within the gold specie points.

Changes which have affected the Gold Standard during the War.

8. It will be observed that the fall in a number of the foreign exchanges below the old export specie points which has taken place since the early part of 1915* is not by itself a proof that the gold standard has broken down or ceased to be effective. During the present war the depredations of enemy submarines, high freights, and the refusal of the Government to extend State insurance to gold cargoes have greatly increased the cost of sending gold abroad. The actual export specie point has, therefore, moved a long way from its old position. In view of our enormous demands for imports, coupled with the check on our exports due to the war, it was natural that our exchanges with neutrals should move towards the export specie point. Consequently, the fall in the export specie point would by itself account for a large fall in our exchange rates. Such a fall must have taken place in the circumstances, even though all the conditions of an effective gold standard had been fully maintained.

9. The course of the war has, however, brought influences into play in consequence of which the gold standard has ceased to be effective. In view of the crisis which arose upon the outbreak of war it was considered necessary, not merely to authorise the suspension of the Act of 1844, but also to empower the Treasury to issue currency notes for one pound and for ten shillings as legal tender throughout the United Kingdom. Under the powers given by the Currency and Bank Notes Act, 1914, the Treasury undertook to issue such notes through the Bank of England to bankers, as and when required, up to a maximum limit not exceeding for any bank 20 per cent. of its liabilities on current and deposit accounts. The amount of notes issued to each bank was to be treated as an advance bearing interest at the current bank rate.

* In the abnormal circumstances at the outbreak of war the neutral exchanges moved temporarily in our favour owing to the remittance home of liquid balances from foreign countries and the withdrawal of foreign credits.

10. It is not likely that the internal demand for legal tender currency which was anticipated at the beginning of August, 1914, would by itself have necessitated extensive recourse to these provisions. But the credits created by the Bank of England in favour of its depositors under the arrangements by which the Bank undertook to discount approved bills of exchange and other measures taken about the same time for the protection of credit caused a large increase in the deposits of the Bank. Further, the need of the Government for funds wherewith to finance the war in excess of the amounts raised by taxation and by loans from the public has made necessary the creation of credits in their favour with the Bank of England. Thus, the total amount of the Bank's deposits increased from, approximately, £56,000,000 in July, 1914, to £273,000,000 on the 28th July, 1915, and, though a considerable reduction has since been effected, they now (15th August) stand as high as £171,870,000. The balances created by these operations passing by means of payments to contractors and others to the joint stock banks have formed the foundation of a great growth of their deposits, which have also been swelled by the creation of credits in connection with the subscriptions to the various War Loans.† Under the operation

† This process has had results of such far-reaching importance that it may be useful to set out in detail the manner in which it operates. Suppose, for example, that in a given week the Government require £10,000,000 over and above the receipts from taxation and loans from the public. They apply for an advance from the Bank of England, which by a book entry places the amount required to the credit of Public Deposits in the same way as any other banker credits the account of a customer when he grants him temporary accommodation. The amount is then paid out to contractors and other Government creditors, and passes, when the cheques are cleared, to the credit of their bankers in the books of the Bank of England—in other words is transferred from Public to 'Other' Deposits, the effect of the whole transaction thus being to increase by £10,000,000 the purchasing power in the hands of the public in the form of deposits in the Joint Stock Banks and the bankers' cash at the Bank of England by the same amount. The bankers' liabilities to depositors having thus increased by £10,000,000 and their cash reserves by an equal amount, their proportion of cash to liabilities (which was normally before the war something under 20 per cent.) is improved, with the result that they are in a position to make advances to their customers to an amount equal to four or five times the sum added to their cash reserves, or, in the absence of demand for such accommodation, to increase their investments by the difference between the cash

of these causes the total deposits of the banks of the United Kingdom (other than the Bank of England) increased from £1,070,681,000 on the 31st December, 1913, to £1,742,902,000 on the 31st December, 1917.

11. The greatly increased volume of bank deposits, representing a corresponding increase of purchasing power and, therefore, leading in conjunction with other causes to a great rise of prices, has brought about a corresponding demand for legal tender currency which could not have been satisfied under the stringent provisions of the Act of 1844. Contractors are obliged to draw cheques against their accounts in order to discharge their wages bill—itself enhanced on account of the rise of prices. It is to provide this currency that the continually growing issues of Currency Notes have been made. The Banks instead of obtaining notes by way of advance under the arrangements described in paragraph 9 were able to pay for them outright by the transfer of the amount from their balances at the Bank of England to the credit of the Currency Note Account and the circulation of the notes continued to increase. The Government subsequently, by substituting their own securities for the cash balance so transferred to their credit, borrow that balance. In effect, the banks are in a position at will to convert their balances at the Bank of England enhanced in the manner indicated above into legal tender currency without causing notes to be drawn, as they would have been under the pre-war system, from the banking reserve of the Bank of England, and compelling the Bank to apply the normal safeguards against excessive expansion of credit. Fresh legal

received and the proportion they require to hold against the increase of their deposit liabilities. Since the outbreak of war it is the second procedure which has in the main been followed, the surplus cash having been used to subscribe for Treasury Bills and other Government securities. The money so subscribed has again been spent by the Government and returned in the manner above described to the bankers' cash balances, the process being repeated again and again until each £10,000,000 originally advanced by the Bank of England has created new deposits representing new purchasing power to several times that amount. Before the war these processes, if continued, compelled the Bank of England, as explained in paragraph 6, to raise its rate of discount, but, as indicated below, the unlimited issue of Currency Notes has now removed this check upon the continued expansion of credit.

tender currency is thus continually being issued, not, as formerly, against gold, but against Government securities. Plainly, given the necessity for the creation of bank credits in favour of the Government for the purpose of financing war expenditure, these issues could not be avoided. If they had not been made, the banks would have been unable to obtain legal tender with which to meet cheques drawn for cash on their customers' accounts. The unlimited issue of currency notes in exchange for credits at the Bank of England is at once a consequence and an essential condition of the methods which the Government have found necessary to adopt in order to meet their war expenditure.

12. The effect of these causes upon the amount of legal tender money (other than subsidiary coin) in bank reserves and in circulation in the United Kingdom are shown in the following paragraph.

13. The amounts on the 30th June, 1914, may be estimated as follows:—

Fiduciary Issue of the Bank of England .	£18,450,000
Bank of England Notes issued against gold coin or bullion	£38,476,000
Estimated amount of gold coin held by Banks (excluding gold coin held in the Issue Department of the Bank of England) and in public circulation . .	£123,000,000
Grand total	£179,926,000

The corresponding figures on the 10th July, 1918, as nearly as they can be estimated, were:—

Fiduciary Issue of the Bank of England .	£18,450,000
Currency Notes not covered by gold .	£230,412,000
Total Fiduciary Issues* . . .	£248,862,000

* The notes issued by Scottish and Irish banks which have been made legal tender during the war have not been included in the foregoing figures. Strictly the amount (about £5,000,000) by which these issues exceed the amount of gold and currency notes held by those banks should be added to the figures of the present fiduciary issues given above.

Brought forward—	£248,862,000
Bank of England Notes issued against coin and bullion	£65,368,000
Currency Notes covered by gold . .	£28,500,000
Estimated amount of gold coin held by Banks (excluding gold coin held by Issue Department of Bank of England), say .	£40,000,000
Grand total	£382,730,000

There is also a certain amount of gold coin still in the hands of the public which ought to be added to the last-mentioned figure, but the amount is unknown.

14. As Bank of England notes and currency notes are both payable at the Bank of England in gold coin on demand this large issue of new notes, associated, as it is, with abnormally high prices and unfavourable exchanges, must have led under normal conditions to a rapid depletion, threatening ultimately the complete exhaustion, of the Bank's gold holdings. Consequently, unless the Bank had been prepared to see all its gold drained away, the discount rate must have been raised to a much higher level, the creation of banking credit (including that required by the Government) would have been checked, prices would have fallen, and a large portion of the surplus notes must have come back for cancellation. In this way an effective gold standard would have been maintained in spite of the heavy issue of notes. But during the war conditions have not been normal. The public are content to employ currency notes for internal purposes, and, notwithstanding adverse exchanges, war conditions interpose effective practical obstacles against the export of gold. Moreover, the legal prohibition of the melting of gold coin, and the fact that the importation of gold bullion is reserved to the Bank of England, and that dealings in it are limited, have severed the link which formerly existed between the values of coin and of uncoined gold. It is not possible to judge to what extent legal tender currency may in fact be depreciated in terms of bullion. But it is practically certain that there has been some depreciation, and to this extent, therefore, the gold standard has ceased to be effective.

Restoration of Conditions necessary to the Maintenance of the Gold Standard recommended.

15. We shall not attempt now to lay down the precise measures that should be adopted to deal with the situation immediately after the war. These will depend upon a variety of conditions which cannot be foreseen, in particular the general movements of world prices and the currency policy adopted by other countries. But it will be clear that the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay. After the war our gold holdings will no longer be protected by the submarine danger, and it will not be possible indefinitely to continue to support the exchanges with foreign countries by borrowing abroad. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be very grave danger of a credit expansion in this country and a foreign drain of gold which might jeopardise the convertibility of our note issue and the international trade position of the country. The uncertainty of the monetary situation will handicap our industry, our position as an international financial centre will suffer and our general commercial status in the eyes of the world will be lowered. We are glad to find that there was no difference of opinion among the witnesses who appeared before us as to the vital importance of these matters.

Cessation of Government Borrowings.

16. If a sound monetary position is to be re-established and the gold standard to be effectively maintained, it is, in our judgment, essential that Government borrowings should cease at the earliest possible moment after the war. A large part of the credit expansion arises, as we have shown, from the fact that the expenditure of the Government during the war has exceeded the amounts which they have been able to raise by taxation or by loans from the actual savings of the people. They have been obliged, therefore, to obtain money through the creation of credits by the Bank of England and by the Joint Stock Banks, with the

result that the growth of purchasing power has exceeded that of purchasable goods and services. As we have already shown, the continuous issue of uncovered currency notes is inevitable in such circumstances. This credit expansion (which is necessarily accompanied by an ever-growing foreign indebtedness) cannot continue after the war without seriously threatening our gold reserves and, indeed, our national solvency.

17. A primary condition of the restoration of a sound credit position is the repayment of a large portion of the enormous amount of Government securities now held by the Banks. It is essential that as soon as possible the State should not only live within its income but should begin to reduce its indebtedness. We accordingly recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt. We should remark that it is of the utmost importance that such repayment of debt should not be offset by fresh borrowings for capital expenditure. We are aware that immediately after the war there will be strong pressure for capital expenditure by the State in many forms for reconstruction purposes. But it is essential to the restoration of an effective gold standard that the money for such expenditure should not be provided by the creation of new credit, and that, in so far as such expenditure is undertaken at all, it should be undertaken with great caution. The necessity of providing for our indispensable supplies of food and raw materials from abroad and for arrears of repairs to manufacturing plant and the transport system at home will limit the savings available for new capital expenditure for a considerable period. This caution is particularly applicable to far-reaching programmes of housing and other development schemes.

The shortage of real capital must be made good by genuine savings. It cannot be met by the creation of fresh purchasing power in the form of bank advances to the Government or to manufacturers under Government guarantee or otherwise, and any resort to such expedients can only aggravate the evil and retard, possibly for generations, the recovery of the country from the losses sustained during the war.

Use of Bank of England Discount Rate.

18. Under an effective gold standard all export demands for gold must be freely met. A further essential condition of the restoration and maintenance of such a standard is therefore that some machinery shall exist to check foreign drains when they threaten to deplete the gold reserves. The recognised machinery for this purpose is the Bank of England discount rate. Whenever before the war the Bank's reserves were being depleted, the rate of discount was raised. This, as we have already explained, by reacting upon the rates for money generally, acted as a check which operated in two ways. On the one hand, raised money rates tended directly to attract gold to this country or to keep here gold that might have left. On the other hand, by lessening the demands for loans for business purposes, they tended to check expenditure and so to lower prices in this country, with the result that imports were discouraged and exports encouraged, and the exchanges thereby turned in our favour. Unless this two-fold check is kept in working order the whole currency system will be imperilled. To maintain the connection between a gold drain and a rise in the rate of discount is essential to the safety of the reserves. When the exchanges are adverse and gold is being drawn away, it is essential that the rate of discount in this country should be raised relatively to the rates ruling in other countries. Whether this will actually be necessary immediately after the war depends on whether prices in this country are then substantially higher than gold prices throughout the world. It seems probable that at present they are on the whole higher, but, if credit expansion elsewhere continues to be rapid, it is possible that this may eventually not be so.

Continuance of Differential Rates for Home and Foreign Money not recommended.

19. It has been argued before us that during the period of reconstruction and perhaps for many years afterwards it will be possible and desirable, even though the exchanges are adverse, to keep money for home industry substantially cheaper in this

country than it is abroad and yet retain an effective gold standard by continuing the present practice of differentiating between home money and foreign money. It is held that relatively low rates should be offered for home money and charged on domestic loans, while gold is at the same time prevented from going abroad by the offer of high rates for foreign money. In our judgment, so soon as the present obstacles in the way of international intercourse are removed, any attempt to maintain this differentiation must break down because it would be impracticable to prevent people from borrowing at the low home rate and contriving in one way or another to re-lend at the high foreign rate. This could only be prevented, if at all, by the maintenance of such stringent restrictions upon the freedom of investment after the war as would, in our opinion, be most detrimental to the financial and industrial recovery of this country. Even, however, if differentiation, as a post-war policy, were practicable, it would not, in our judgment, be desirable. For the low home rate, by fostering large loans and so keeping up prices would continue to encourage imports and discourage exports; so that, even though the high rate offered for foreign money prevented gold from being drawn abroad, it would only do this at the cost of piling up an ever-growing debt from Englishmen to foreigners. It would be necessary at the same time to continue to pay for our essential imports of raw materials by borrowing in the United States and elsewhere, instead of by increasing our exports, thus imposing further burdens of foreign debt. This process could not continue indefinitely, and must sooner or later lead to a collapse. We are, therefore, of opinion that the need for making money dear in the face of adverse exchanges cannot, and should not, be evaded by resort to differential rates.

Legal Limitation of Note Issue necessary.

20. The foregoing argument has a close connection with the general question of the legal control of the note issue. It has been urged in some quarters that in order to make possible the provision of a liberal supply of money at low rates during the period of reconstruction further new currency notes should be created,

with the object of enabling banks to make large loans to industry without the risk of finding themselves short of cash to meet the requirements of the public for legal tender money. It is plain that a policy of this kind is incompatible with the maintenance of an effective gold standard. If it is adopted there will be no check upon the outflow of gold. Adverse exchanges will not be corrected either directly or indirectly through a modification in the general level of commodity prices in this country. On the contrary, as the issue of extra notes stimulates the conditions which tend to produce an advance of prices, they will become steadily more and more adverse. Hence the processes making for the withdrawal of our gold will continue and no counteracting force will be set in motion. In the result the gold standard will be threatened with destruction through the loss of all our gold.

21. The device of making money cheap by the continued issue of new notes is thus altogether incompatible with the maintenance of a gold standard. Such a policy can only lead in the end to an inconvertible paper currency and a collapse of the foreign exchanges, with consequences to the whole commercial fabric of the country which we will not attempt to describe. This result may be postponed for a time by restrictions on the export of gold and by borrowing abroad. But the continuance of such a policy after the war can only render the remedial measures which would ultimately be inevitable more painful and protracted. No doubt it would be possible for the Bank of England, with the help of the Joint Stock Banks, without any legal restriction on the Note Issue, to keep the rate of discount sufficiently high to check loans, keep down prices, and stop the demand for further notes. But it is very undesirable to place the whole responsibility upon the discretion of the banks, subject as they will be to very great pressure in a matter of this kind. If they know that they can get notes freely, the temptation to adopt a lax loan policy will be very great. In order, therefore, to ensure that this is not done, and the gold standard thereby endangered, it is, in our judgment, imperative that the issue of fiduciary notes shall be, as soon as practicable, once more limited by law, and that the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the

reserve of the Banking Department shall be terminated at the earliest possible moment. Additional demands for legal tender currency otherwise than in exchange for gold should be met from the reserves of the Bank of England and not by the Treasury, so that the necessary checks upon an undue issue may be brought regularly into play. Subject to the transitional arrangements as regards currency notes which we propose in paragraphs 43 to 46, and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England; the notes should be payable in gold in London only, and should be legal tender throughout the United Kingdom.

Machinery for the Control of the Note Issue.

22. So far we have addressed ourselves to the principles upon which the retention and maintenance of an effective gold standard depend. We have now to consider the particular machinery in regard to the control of the Note Issue by which the observance of these principles can most effectively be secured, and what modification (if any) may be desirable or permissible in the system in force before the war.

23. We would in the first place observe that, while the obligation to pay both Bank of England notes and currency notes in gold on demand should, in our judgment, be maintained, it is not necessary for the maintenance of an effective gold standard, nor do we think it desirable, that there should be an early resumption of the internal circulation of gold coin. For the present at any rate we think that it will be more economical that gold should be held in a central reserve as a backing for notes in circulation. We do not think that any legislation on this subject will be required. People have by now become fully accustomed to the use of notes, and it is probable that (except for the limited requirements of persons proposing to travel abroad) they will continue to circulate instead of gold coin much as they do at present. Informal action on the part of the banks may be expected

to accomplish all that is required. If necessary, however, the circulation of gold coin could be prevented by making the notes convertible at the discretion of the Bank of England either into such coin or into bar gold, though for our own part we should prefer to maintain the right of the noteholder to receive payment in gold coin and to trust to the informal steps suggested above to prevent gold from flowing into internal circulation.

24. Secondly, while it is a necessary condition of an effective gold standard that the import of gold should be free from all restrictions, it is not necessary to allow gold coin or bullion obtained otherwise than from the Bank of England to be exported. In view of the fact that it is convenient that the Bank of England should have cognizance of all gold exports, we think it desirable that the export of gold coin or bullion should be subject to the condition that such coin or bullion has been obtained from the Bank for the purpose. Manufactured gold should be deemed to be bullion unless it is in the form of articles containing a prescribed fashion value (say of 10 per cent.). The Bank should be under obligation to supply gold for export in exchange for its notes. These conditions will be sufficient to enable parity to be maintained between currency and bullion, since importers of gold will be free to sell it either in the market or to the Bank of England.

25. Thirdly, in view of the withdrawal of gold from circulation, it is, we think, desirable that the gold reserves of the country should be held by one central institution, and we recommend therefore that all banks should transfer any gold now held by them to the Bank of England, except such small amounts as they may require to keep for the convenience of travellers.

In our opinion, the prohibition against the melting of gold coin should for the present be maintained.

26. We have carefully considered various proposals that have been laid before us as regards the basis upon which the fiduciary note issue should in future be fixed. It has been urged that the raising of the discount rate by the Bank of England may be delayed too long to check effectively an undue expansion of credit, and that under the rigid restrictions of the Act of 1844 a famine

of legal tender money might ensue. Crises of this nature necessitating the suspension of the Act arose in 1847, 1857, and 1866, and on the first two occasions notes were actually issued by the Bank in excess of the maximum authorised by law. On this ground mainly it has been urged that these rigid restrictions ought to be transformed into something more elastic. To this end the following principal proposals, either separately or in combination, have been put before us by various witnesses:—

(1) That the Banking and Issue Departments of the Bank of England should be amalgamated;

(2) That the issue of additional notes, instead of being required to be covered £ for £ by gold, should be freely allowed, subject only to the condition that a prescribed percentage of the total issue should be so covered;

(3) That, while either an absolute figure for the maximum fiduciary issue or a maximum determined on a proportionate basis should be prescribed by law, provision should be made for increases beyond this maximum upon condition of a tax being paid by the Bank to the Government.

These various suggestions we now proceed to discuss.

27. First, the main effect of the amalgamation of the two Departments of the Bank of England would be to place deposits with the Bank of England in the same position as regards convertibility into gold as is now held by the note. It has been argued in favour of this change that greater security would be given to the deposits than under the present system. After careful consideration we are unable to recommend it. The deposits have at present the full security of the reserve in the Banking Department, and it is obvious that any such additional security would be at the direct expense of the security of the note. In our opinion it is desirable that the issue of Currency shall be subject to strict legal regulation, but that the management of banking should be left as free as possible from State interference. We think that the amalgamation of the two Departments would inevitably lead in the end to State control of the creation of banking credit generally,

a contingency which we are convinced would greatly hamper the elasticity and efficiency with which the banks are able to meet the requirements of industry.

28. Secondly, the proposal to allow the issue of fiduciary notes without limit, subject only to a fixed percentage of the total issue being held in gold by the Bank of England (or the Issue Department of the Bank of England if there is no amalgamation), appears to us objectionable for the following reasons. If, as happened in general in the German Reichsbank, other regulations keep the actual note issue much below the maximum fixed by this proportion, the proportion is not effective and produces no result. But, if the actual note issue is really controlled by the proportion, the arrangement is liable to bring about very violent disturbances. Suppose, for example, that the proportion of gold to notes is actually fixed at one-third and is operative. Then, if the withdrawal of gold for export reduces the proportion below the prescribed limit, it is necessary to withdraw notes in the ratio of three to one. Any approach to the conditions under which the restriction would become actually operative would thus be likely to cause even greater apprehension than the limitations of the Act of 1844.

29. This consequence might no doubt be obviated for a time if the Joint Stock Banks themselves kept large reserves of gold and were prepared in the event of the depletion of the Bank of England reserve either by an external or by an internal drain to use them to make good the depletion and so dispense for the time being with the necessity for withdrawing notes from circulation. It is clear, however, that unless the same steps in regard to money rates and the restriction of credit were taken as would be necessary if the depletion were actually operative, this remedy would be merely a temporary palliative, since the causes which had occasioned the drain would continue to operate unchecked. If, on the other hand, as some have advocated, the Banks were given in consideration for their assistance in such contingencies, in addition to the right to obtain notes for the gold brought in, the right to receive advances in further fiduciary notes, the result, so far as the right was exercised, would be to neutralise the effect

which the gold brought in would otherwise have had in preserving or restoring the proportion of gold to circulation, while the Bank of England would be placed in the very dangerous position of being under an absolute obligation to create new credits at the very moment at which a policy of credit restriction had become essential.

Incidentally we would remark that the minimum percentages proposed by the London Chamber of Commerce, namely, $33\frac{1}{3}$ per cent. of gold against the Bank of England note issue and 20 to 25 per cent. against a separate issue of currency notes, would in our opinion be wholly inadequate. The percentage of gold to the two issues, taken together, would actually be less than is now held. The Manchester Chamber of Commerce propose that the proportion of gold to notes should be 40 per cent., while Sir Edward Holden was of opinion that the Bank should aim at that proportion of gold in respect to its total liabilities on account of the notes issued and deposits. For the reasons indicated above, however, we have come to the unanimous conclusion that there are substantial objections to basing the note issue of this country upon any proportionate holding of gold.

30. There remains, thirdly, the plan of fixing a maximum *absolute* limit to the fiduciary note issue, subject to the condition that this limit may be exceeded on the payment of a tax to the Government. It is obvious that, if such a tax is to act as a deterrent, it must be sufficiently high to secure that no profit should accrue to the Bank as the result of the emergency issue. As this profit necessarily depends to a large degree upon the rate of interest at which accommodation is given to the market, we do not think, in view of the great uncertainty as to the future course of interest rates, that it is practicable now to name any figure which could safely be adopted for such a tax. Unless it is fixed at a sufficiently penal rate to secure that the normal fiduciary issue is not exceeded except in circumstances of real emergency, and then only for a strictly limited period, the system may afford dangerous possibilities of excessive speculation and lend itself to the development of crises which more stringent safeguards might have averted altogether. This criticism has in fact been made of the German plan, and we are not clear how the arrangements

recently adopted by the United States, which have not yet been tested by experience, will actually operate. If it were decided to adopt any such method in this country, it would be necessary for safety to take a very high rate which might, in fact, prove to be unduly penal.

31. In view of the comparison with the systems prevailing in foreign countries which have been put forward by various witnesses, we would point out that these countries have not in practice maintained the absolutely free gold market which this country, by reason of the vital importance of its position in international finance, is bound to do. It has therefore been open to them to have recourse to devices to steady the rate of discount which, even if successful for this purpose, it would be inexpedient and dangerous for us to attempt.

Maintenance of Principle of Bank Charter Act, 1844, recommended.

32. Having regard to the foregoing considerations, we are of opinion that the principle of the Act of 1844, which has upon the whole been fully justified by experience, should be maintained, namely, that there should be a fixed fiduciary issue beyond which, subject to emergency arrangements which we recommend below, notes should only be issued in exchange for gold. It is noteworthy that from 1866 till the outbreak of the present war no suspension of the Act was ever necessary. We think that the stringent principles of the Act have often had the effect of preventing dangerous developments and the fact that they have had to be temporarily suspended on certain rare and exceptional occasions (and those limited to the earlier years of the Act's operation when experience of working the system was still immature) does not, in our opinion, invalidate this conclusion. We recommend, therefore, that the separation of the Issue and Banking Departments of the Bank of England should be maintained and that the Weekly Return should continue to be published in its present form.

Modification of Provisions of Act of 1844 in respect of Issue of Emergency Currency recommended.

33. This conclusion, however, has not prevented us from considering with care the possibility of so modifying the Act of 1844 as to make provision for the issue of emergency currency in times of acute difficulty. It might, no doubt, be sufficient to leave matters as they were prior to 1914 and to risk the possibility of the law having to be broken, subject to indemnity from Parliament, but upon the whole we share the objections which have been expressed in many quarters to this procedure. We are, therefore, of opinion that the provisions of Section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit, should be continued in force. It should be provided by statute that Parliament should be informed forthwith of any action taken by the Treasury under this provision by means of a Treasury Minute which should be laid before both Houses. The statute should also provide that any profits derived from the excess issue should be surrendered by the Bank to the Exchequer. It will, of course, be necessary that the Bank rate should be raised to, and maintained at, a figure sufficiently high to secure the earliest possible retirement of the excess issue.

34. In connection with these emergency arrangements we have considered the question of the reserves which should be held by the joint stock banks quite apart from their normal reserves of legal tender money. As we do not contemplate a resumption of the internal circulation of gold, no useful purpose would be served by their accumulating gold which can be more effectively employed by the Bank of England in maintaining the exchanges and supporting the note issue. We have considered a proposal that they should be required to hold a certain proportion of their deposits in the form of Treasury Bills and other short-dated Government Securities, which, in the event of a crisis, might be discounted with the Bank of England and form the basis of an issue of emergency currency, if required. While we think it

expedient that such reserves should be held, we have come to the conclusion that it would not be desirable to attempt any legal regulation of the matter. Our attention has, however, been called to the fact that a Committee of Bankers have recommended that banks should in future be required to publish a Monthly Statement in the form of Appendix I. to this Report showing the average of their weekly balance sheets during the month. We entirely concur in this recommendation and we suggest that the statement of assets should be amplified by the addition after 'money at call and at short notice' of a heading 'Government Securities maturing within 12 months'. If this is done, we think that the consequent publicity will be amply sufficient to secure the object which we have in view.

Amount of Fiduciary Note Issue and Gold Reserve.

35. Having come to the conclusion that the amount of the fiduciary issue should, subject to what was said in paragraph 33, be fixed by law at some definite amount, we have next to consider how large this fiduciary issue ought to be.

Assuming the restoration of an effective gold standard, and given the conventional standards of banking practice and the customs of the public as regards the use of currency, the amount of legal tender currency (other than subsidiary coin) which can be kept in circulation, including the currency holdings of the banks and the Banking Department of the Bank of England, will determine itself automatically, since, if the currency becomes redundant, the rate of discount will fall, and prices will rise; notes will be presented in exchange for gold for export and the volume of the currency will be reduced *pro tanto*. If, on the other hand, the supply of currency falls below current requirements, the rate of discount will rise, prices will fall, gold will be imported and new notes taken out in exchange for it.

36. Under the arrangements which we contemplate virtually the whole amount of the currency gold in the country will be held in a central reserve at the Bank of England; and the circulation, in the wide sense in which we are using the term, will consist (apart from the subsidiary currency, which we need not now

consider) in part of fiduciary notes and, as regards the balance, of notes covered by that reserve. The total circulation being automatically determined, it will follow that the higher the amount fixed for the fiduciary issue the lower will be the amount of the covered issue and, consequently, of the central gold reserve and *vice versa*, while, if the fiduciary issue were fixed at a figure which proved to be higher than the total requirements of the country for legal tender currency, the covered issue, and with it the central gold reserve, would disappear altogether. It is clear, therefore, that the amount of the fiduciary issue must be fixed at a figure low enough to make sure, not merely that there will always be some covered issue, but that there will always be a covered issue of sufficiently substantial amount to secure that the covering gold which constitutes the central reserve never falls so low as to give rise to apprehension as to the stability of the gold standard.

37. If the post-war requirements proved to be no larger than the pre-war requirements (about £180,000,000, exclusive of subsidiary coin, as shown in paragraph 13), it is clear that the present fiduciary issue of £249,000,000 would have to be reduced by £69,000,000 before any gold could be retained in the central reserve at all. Even upon the supposition that the policy of substituting notes for all gold outside that reserve is completely successful, in order to have a central gold reserve of £100,000,000 the fiduciary issue would have to be reduced to £80,000,000 and, even so, we should have £60,000,000 less gold in the country than before the war.

38. The pre-war requirements, however, had relation to the level of pre-war world prices, the existing conventional standards in regard to banking reserves, and the habits of the people, both in regard to the amounts of money which they carried in their pockets and kept in their homes and to the use of credit instruments in place of cash. It is probable that after the war world prices will stand for many years, if not permanently, at a greatly enhanced level, and that the banks may well find it desirable to adopt a higher standard for their holdings of legal tender money. Furthermore, any additional economy in the use of legal tender

money which may take place through the extended use of bankers' cheques and other credit instruments may be more than offset by the fact that a larger share of the national income is likely to be enjoyed by the wage-earning classes who are the chief users of legal tender money. All these causes will tend to increase the amount of legal tender money which the country will, consistently with the maintenance of a gold standard, be able to retain in bank reserves and general circulation to a point much above the pre-war figure, but the precise amount of the increase can only be determined by experience.

39. Until such experience has been gained it would in our opinion be dangerous to seek to lay down any precise figure for the fiduciary issue. The adoption of an unnecessarily low figure would result in the accumulation of a gold reserve of larger dimensions than is strictly necessary for the protection of the gold standard and the security of our national credit—a luxury which we shall be ill able to afford in the difficult times which are ahead—while the adoption of too high a figure would destroy the gold standard altogether.

40. It, therefore, seems desirable to approach the problem from the other end, and to attempt to fix tentatively the amount which we should like to see held in gold in the central reserve, leaving the ultimate dimensions of the fiduciary issue to be settled as the result of experience at the amount of fiduciary notes which can be kept in circulation—in banking reserves (including the Banking Reserve of the Bank of England), and in the pockets of the people—without causing the central gold reserve to fall appreciably below the amount so fixed.

41. The pre-war gold reserves were about £38,500,000 in the Bank of England and an amount estimated at £123,000,000 in the banks and in the pockets of the people. If the actual circulation of gold coins ceases and the whole of the gold is concentrated in the central institution, some economy is permissible in view of its increased mobility. On the other hand the aggregate amount of currency required will undoubtedly be larger. We accordingly recommend that the amount to be aimed at in the first instance as the normal minimum amount of the central gold reserve should

be £150,000,000, and that, until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for a period of at least a year, the policy of reducing the uncovered note issue as and when opportunity offers should be consistently followed. In view of the economic conditions which are likely to follow the restoration of peace, it will be necessary to apply this policy with extreme caution and without undue rigidity. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000 the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists.

Reduction of Present Currency Note Issue during Interim Period.

42. If these arrangements are adopted, there will be an interim period beginning after the completion of demobilisation during which it is probable that the present issue of Currency Notes will have to be gradually reduced until experience has shown what amount of fiduciary notes can be kept in circulation consistently with the maintenance of this reserve. It was suggested to us in evidence that, until that amount has been ascertained, steps should be taken as soon as possible after the war to reduce the uncovered issue at the rate of not less than 3 per cent. per annum of the outstanding amount, and that, subject to arrangements for meeting a temporary emergency, the issue in any period of six months or one year should not be allowed to exceed the amount outstanding in the preceding similar period. We think that it would be highly desirable to aim at a steady and continuous reduction, but we are disposed to doubt whether it will be found to be practicable to work to any precise rule. We confine ourselves therefore to the general recommendation of policy indicated above. We entirely concur, however, in the suggestion that, when reductions have taken place, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements proposed in paragraph 33.

Transitional Arrangements Pending Replacement of Currency Note Issue by a Bank of England Issue.

43. It remains for us to consider how and when the present issue of Currency Notes is to be replaced by the Bank of England issue. There would be some awkwardness in transferring the issue to the Bank of England before the future dimensions of the fiduciary issue have been ascertained. We, therefore, recommend that during the transitional period the issue should remain a Government issue, but that such post-war expansion (if any) as may take place should be covered, not by the investment of the proceeds of the new notes in Government securities, as at present, but by taking Bank of England notes from the Bank and holding them in the Currency Note Reserve, and that, as and when opportunity arises for providing cover for the existing fiduciary portion of the issue, the same procedure should be followed. The effect of this arrangement would be that the demands for new currency would operate in the normal way to reduce the reserve in the Banking Department at the Bank of England, which would have to be restored by raising money rates and encouraging gold imports.

44. We should thus in course of time have the Currency Note issue covered partly by the £28,500,000 of gold at present held and partly by Bank of England notes covered by gold in the Issue Department of the Bank of England; the balance, forming the fiduciary part of the issue properly so-called, being covered by Government securities as at present. During the transition stage the greater part at any rate of the demand for gold for export will fall upon the Bank of England, since currency notes are not likely to be presented to any large extent for actual payment in gold, but will be paid in by the banks which collect them to the credit of their accounts with the Bank of England, the balances thereby created being used when necessary to draw gold from the Bank of England for export in the ordinary way. We accordingly think that it will be desirable that Bank of England notes should likewise be substituted in the Currency Note Reserve, either immediately after the war or from time to time by instal-

ments, for the £28,500,000 gold now held by that reserve, so that when the time is ripe for the final transfer the whole of the gold reserve may be in the hands of the Bank.

45. When the fiduciary portion of the issue has been reduced to the amount which experience shows to be consistent with the maintenance of a gold reserve of £150,000,000 in the Issue Department of the Bank, the outstanding Currency Notes should be retired and Bank of England notes of low denomination substituted, the Bank of England fiduciary issue being simultaneously increased by an amount equal to the then issue of Currency Notes covered by Government securities. As the Bank of England notes held in the Currency Note Reserve and the gold against them would already appear in the Bank return, the only effect on that return of the ultimate merger would be to add to the total Bank of England issue the amount of the fiduciary portion of the Currency Note issue as ultimately ascertained, and to add the same amount of Government securities to the securities in the Issue Department.

46. The settlement as between the Treasury and the Bank would take the form of the Treasury handing over to the Bank in exchange for a like amount of Currency Notes withdrawn by the Bank from circulation the Bank of England notes held for the Currency Note account, and in respect of the remainder of the Currency Notes withdrawn Government securities. These securities should be either Ways and Means advances, or Treasury Bills and other marketable securities being part of the ordinary Public Debt, and should be taken at current market value. In so far as any of the assets of the currency note redemption account at the time of transfer might not come within these categories they should be retained by the Treasury and other securities substituted. The Bank of England notes of small denomination would be issued by the Bank in place of the currency notes withdrawn from circulation, partly in substitution for the Bank of England notes returned to them from the Currency Note Reserve (which would be already covered by gold in the Issue Department), and partly in respect of the Bank's new fiduciary issue based on the transferred securities. The profits of the

increased fiduciary issue would be payable by the Bank to the Exchequer.

Summary of Conclusions.

47. Our main conclusions may be briefly summarised as follows:—

Before the war the country possessed a complete and effective gold standard. The provisions of the Bank Act, 1844, operated automatically to correct unfavourable exchanges and to check undue expansions of credit. (Paras. 2 to 7.)

During the war the conditions necessary to the maintenance of that standard have ceased to exist. The main cause has been the growth of credit due to Government borrowing from the Bank of England and other banks for war needs. The unlimited issue of Currency Notes has been both an inevitable consequence and a necessary condition of this growth of credit. (Paras. 8 to 14.)

In our opinion it is imperative that after the war the conditions necessary to the maintenance of an effective gold standard should be restored without delay. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be grave danger of a progressive credit expansion which will result in a foreign drain of gold menacing the convertibility of our note issue and so jeopardising the international trade position of the country. (Para. 15.)

The pre-requisites for the restoration of an effective gold standard are:—

(*a*) The cessation of Government borrowing as soon as possible after the war. We recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt. (Paras. 16 and 17.)

(*b*) The recognised machinery, namely, the raising and making effective of the Bank of England discount rate, which before the war operated to check a foreign drain of gold and the speculative expansion of credit in this

country, must be kept in working order. This necessity cannot, and should not, be evaded by any attempt to continue differential rates for home and foreign money after the war. (Paras. 18 and 19.)

(*c*) The issue of fiduciary notes should, as soon as practicable, once more be limited by law, and the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department should be terminated at the earliest possible moment. Subject to transitional arrangements as regards Currency Notes and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England. The Notes should be payable in London only and should be legal tender throughout the United Kingdom. (Paras. 20 and 21.)

As regards the control of the Note Issue, we make the following observations:—

(1) While the obligation to pay both Bank of England Notes and Currency Notes in gold on demand should be maintained, it is not necessary or desirable that there should be any early resumption of the internal circulation of gold coin. (Para. 23.)

(2) While the import of gold should be free from all restrictions, it is convenient that the Bank of England should have cognizance of all gold exports and we recommend that the export of gold coin or bullion should be subject to the condition that such coin and bullion has been obtained from the Bank for the purpose. The Bank should be under obligation to supply gold for export in exchange for its notes. (Para. 24.)

(3) In view of the withdrawal of gold from circulation we recommend that the gold reserves of the country should

be held by one central institution and that all banks should transfer any gold now held by them to the Bank of England. (Para. 25.)

Having carefully considered the various proposals which have been placed before us as regards the basis of the fiduciary note issue (paras. 26 to 31), we recommend that the principle of the Bank Charter Act, 1844, should be maintained, namely, that there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold. The separation of the Issue and Banking Departments of the Bank of England should be maintained, and the Weekly Return should continue to be published in its present form. (Para. 32.)

We recommend, however, that provision for an emergency be made by the continuance in force, subject to the stringent safeguards recommended in the body of the Report, of section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit. (Para. 33.)

We advocate the publication by the banks of a monthly statement in a prescribed form. (Para. 34.)

We have come to the conclusion that it is not practicable to fix any precise figure for the fiduciary Note Issue immediately after the war. (Paras. 35 to 39.)

We think it desirable, therefore, to fix the amount which should be aimed at as the central gold reserve, leaving the fiduciary issue to be settled ultimately at such amount as can be kept in circulation without causing the central gold reserve to fall below the amount so fixed. We recommend that the normal minimum of the central gold reserve to be aimed at should be, in the first instance, £150 millions. Until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for at least a year, the policy of cautiously reducing the uncovered Note Issue should be followed. When reductions have been effected, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements previously recommended. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000, the position should again

be reviewed in the light of the dimensions of the fiduciary issue as it then exists. (Paras. 40 to 42.)

We do not recommend the transfer of the existing Currency Note Issue to the Bank of England until the future dimensions of the Fiduciary Issue have been ascertained. During the transitional period the issue should remain a Government issue, but new notes should be issued, not against Government securities, but against Bank of England Notes, and, furthermore, when opportunity arises for providing cover for existing uncovered notes, Bank of England Notes should be used for this purpose also. Demands for new currency would then fall in the normal way on the Banking Department of the Bank of England. (Paras. 43 and 44.)

When the fiduciary portion of the issue has been reduced to an amount which experience shows to be consistent with the maintenance of a central gold reserve of £150 millions, the outstanding Currency Notes should be retired and replaced by Bank of England Notes of low denomination in accordance with the detailed procedure which we describe. (Paras. 45 and 46.)

We have the honour to be,
My Lords and Sir,
Your obedient Servants,

(Signed) CUNLIFFE (*Chairman*).
C. S. ADDIS.
R. E. BECKETT.
JOHN BRADBURY.
G. C. CASSELS.
GASPARD FARRER.
HERBERT C. GIBBS.
W. H. N. GOSCHEN.
INCHCAPE.
R. W. JEANS.
A. C. PIGOU.
GEO. F. STEWART.
W. WALLACE.

G. C. UPCOTT (*Secretary*),
15th August, 1918.

APPENDIX I.

Proposed Monthly Statement to be published by Banks.

Statement of the average figures of the weekly Balance Sheets during the month of .....19....

Liabilities.	£
Capital :—	
Registered £	
Subscribed £	
Paid up	
Reserve Fund	
Current, Deposit, and other Accounts	
Acceptances	
Endorsements, Guarantees and other obligations	
Notes in Circulation	
	£

Assets.	£	£
Cash :—		
(1) Coin, Bank and Currency Notes, and Balances with the Bank of England	£	
(2) Balances with London Clearing Agents and with other Banks, Bankers or Banking Companies in the United Kingdom	£	
(3) Items in transit	£	
Money at Call and at Short Notice		
British Bills of Exchange		
Foreign Bills, Foreign Bank Bills and Domiciled Bills		
Balances abroad		
Investments :—		
(1) Securities of, or guaranteed by, British Government		
(2) Indian and Colonial Government Securities, British Corporation Stocks, British Railway Debenture and Preference Stocks		
(3) Other Investments		
Loans and Advances		
Other Assets		
Bank Premises		
Liabilities of Customers for Acceptances, as per contra		
Liabilities of Customers for Endorsements, Guarantees and other obligations, as per contra		
		£

FINAL REPORT OF THE COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES AFTER THE WAR

TO THE LORDS COMMISSIONERS OF HIS MAJESTY'S TREASURY.

My Lords,

1. We have the honour to present herewith our final Report on certain matters referred to us in January, 1918, with which we were not in a position to deal in our Interim Report in August of that year.

2. *Foreign Exchanges.*—We stated in the introduction to our Interim Report our opinion that a sound system of currency would in itself secure equilibrium in the Foreign Exchanges. We have reviewed the criticisms which have been made upon this part of our Report, but we see no reason to modify our opinion. We have found nothing in the experiences of the war to falsify the lessons of previous experience that the adoption of a currency not convertible at will into gold or other exportable coin is likely in practice to lead to overissue and so to destroy the measure of exchangeable value and cause a general rise in all prices and an adverse movement in the foreign exchanges.

3. The nominal convertibility of the currency note which has been sustained by the prohibition of the export of gold is of little value. The weakness of the exchanges is in a measure due to trade conditions, but an important cause of the depreciation in sterling in New York and other financial centres is, in our opinion, to be found in the expanded state of credit in this country. The existing expansion is not merely the legacy of the stress of war finance and Government borrowings, which even now have not ceased, but also, in part the result of maintaining rates for money in London below those ruling in other important financial centres. The difficulties of the Foreign Exchanges' position are aggravated by the grant of long term loans and credits, whether directly or under guarantee or otherwise by the Government or by private

lenders, to enable foreign States or their nationals to pay for exports from this country. Few of these loans and credits will be liquidated at an early date. The large payments which we have to make to America, North and South, for necessary imports of foodstuffs and raw materials from those countries make it essential that we, in our turn, should secure payment in cash for as large a proportion as possible of our exports visible and invisible. We recommend therefore that preference should be given to exports to countries which are able to make payment in the ordinary course of trade.

Increased production, cessation of Government borrowings and decreased expenditure both by the Government and by each individual member of the nation are the first essentials to recovery. These must be associated with the restoration of the pre-war methods of controlling the currency and credit system of the country for the purpose of re-establishing at an early date a free market for gold in London.

4. *Bank of England.*—The principles of the Bank Charter Act of 1844 were fully considered by us in our Interim Report. We have examined with care the opinions there expressed in the light of certain criticisms which have been made with regard to them. We see, however, no reason to alter our conclusions. We have again considered the principles governing the banking systems of the principal foreign countries and we are satisfied that they are not so well adapted to the needs of this country as those contained in the Act of 1844. Certain important alterations which experience suggested to be desirable have been made in the constitution and management of the Bank during the war, and we do not now think it necessary to make any further recommendation.

5. *Government Borrowings on Ways and Means Advances from the Bank of England.*—We desire to draw attention to the extensive use made during the war of the system of Ways and Means Advances from the Bank of England. We referred to this matter in paragraph 16 of our Interim Report and explained its effect in causing credit and currency expansion. The powers given to the

Government by Parliament to borrow from the Bank of England in the form of an overdraft on the credit of Ways and Means were, as the name implies, intended to enable the Government to anticipate receipts from Revenue or permanent borrowings for a brief period only. Indeed Parliament by expressly providing that all such advances should be repaid in the quarter following that in which they were obtained showed that it had no intention of bestowing upon the Government the power of securing an overdraft of indefinite duration and amount. Under the exigencies of war finance the Government found it necessary to re-borrow in each quarter on the credit of Ways and Means the amount needed to enable them to comply with the statutory requirement that the previous quarter's Ways and Means Advances should be repaid, with the result that the total outstanding advances remained for a long time at a high figure. We are glad to see that efforts are now being made to reduce this overdraft to more moderate dimensions.

We, therefore, hope, now that conditions are less abnormal, that the Government will confine its use of Ways and Means and Advances from the Bank of England to providing for purely temporary necessities. Such advances afford a legitimate method of tiding over a few weeks' shortage, but are entirely unsuitable for borrowings over a longer period.

6. *Foreign Banks.*—Several of our witnesses have called attention to the conditions under which it is open to foreign banks to establish themselves in this country. We suggest that this is a matter which should receive the early attention of His Majesty's Government.

7. *Scottish and Irish Banks.*—We have now taken evidence in regard to the application of the recommendations in our Interim Report to Scotland and Ireland. The status of legal tender was given to the notes of the Scottish and Irish Banks of Issue as an emergency measure to tide over the period at the outbreak of war when a serious shortage of currency was threatened, a condition of affairs which no longer obtains. Some of the witnesses on behalf of the Scottish and Irish Banks showed a marked desire

to retain the privilege of legal tender status for their notes. In our opinion the grant of legal tender status could not be given permanently to the notes of Scottish and Irish Banks except under statutory conditions similar to those embodied in the Bank Act of 1844. The evidence before us indicates that rather than be subjected to such conditions the banks would prefer the restoration of the pre-war status. We accordingly recommend that the pre-war status be restored. We further recommend that when the position which we contemplate in our Interim Report is ultimately reached the cover held by the Scottish and Irish Banks for their excess issue shall take the form of any legal tender at that time in existence.

8. *Currency Note Issue.*—We have considered whether steps should not be taken at an early date to impose limitations upon the fiduciary portion of the currency note issue with a view to the restoration of the normal arrangements under which demands for new currency operate to reduce the reserve in the Banking Department of the Bank of England. In view of the fact that demobilisation is approaching completion and that as we hope fresh Government borrowing will shortly cease, we consider that effect should now be given to the recommendation made in our Interim Report that the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements which we proposed in paragraph 33 of our Interim Report. The policy of placing Bank of England notes in the Currency Note Reserve as cover for the fiduciary portion of the issue as opportunity arises should, of course, be continued. We recommend further that the Treasury Minute made under Section 2 of the Currency and Bank Notes Act, 1914, providing for the issue of currency notes to Joint Stock Banks, which is in fact inoperative, should now be withdrawn.

The Committee wish to place on record their deep sense of obligation to Mr. G. C. Upcott, who served as Secretary to the Committee from the beginning with unfailing zeal, knowledge and ability. They are also greatly indebted to Mr. H. E. Fass, who was appointed Joint Secretary with Mr. Upcott in July,

1919 and rendered important and efficient service in the closing period of the Committee's labours.

We have the honour to be,

My Lords,

Your obedient Servants,

(Signed) CUNLIFFE (*Chairman*).
C. S. ADDIS.
R. E. BECKETT.
BASIL P. BLACKETT.
GASPARD FARRER.
HERBERT C. GIBBS.
W. H. N. GOSCHEN.
INCHCAPE.
R. W. JEANS.
A. C. PIGOU.
‡GEO. F. STEWART.
W. WALLACE.

G. C. UPCOTT.
H. E. FASS. } *Secretaries.*

3rd December, 1919.

‡ Subject as regards the recommendations of paragraph 7 to the following reservation:—

Having regard to the evidence given by the witnesses from Ireland, the pre-war status should not be restored in Ireland until the Government consider the time opportune.

(Signed) GEO. F. STEWART.

TREASURY MINUTE, dated 15th December 1919, directing that the Actual Maximum Fiduciary Circulation of Currency Notes in any Year shall be the fixed Maximum for the following Year. [Cmd. 485.]

(See Parliamentary Papers, 1919, vol. xxxii.)

THE Chancellor of the Exchequer draws the attention of the Board to paragraph 8 of the Final Report of the Committee on Currency and Foreign Exchanges after the War, which recommends the imposition of a maximum limit on the issue of Currency Notes under the Currency and Bank Notes Act, 1914. The Chancellor proposes to the Board that steps shall be taken to give effect to the recommendation that the actual maximum fiduciary circulation of Currency Notes in any year shall be the fixed maximum for the following year.

The maximum fiduciary circulation during the expired portion of the current calendar year has been £320,608,298 10*s*. and the Chancellor accordingly proposes that directions shall now be given to the Bank of England restricting them from issuing Currency Notes during the 12 months commencing the 1st January, 1920, in excess of a total of £320,600,000, except against gold or Bank of England Notes, and from issuing in the calendar year commencing 1st January in any year henceforward notes in excess of the actual maximum fiduciary circulation of the preceding 12 months.

My Lords concur.

Let copies of this Minute be transmitted to the Banks of England and Ireland, the Bankers' Clearing House Committee, and the Comptroller and Auditor-General; and let copies be presented to both Houses of Parliament.

THE RETURN TO THE GOLD STANDARD

REPORT OF THE COMMITTEE ON THE CURRENCY AND BANK OF ENGLAND NOTE ISSUES, 1925.

MAY IT PLEASE YOUR LORDSHIPS,

1. By Treasury Minute of the 10th June, 1924, we were appointed a Committee to consider whether the time has now come to amalgamate the Treasury note issue with the Bank of England note issue, and, if so, on what terms and conditions the amalgamation should be carried out.

2. We have held nine meetings and have heard thirteen witnesses, including the Governor of the Bank of England, Mr. McKenna, Sir Robert Horne, Professor Cannan, Sir George Paish, Mr. Keynes and representatives of the Clearing Banks, the Association of British Chambers of Commerce and the Federation of British Industries.

3. The greater part of our evidence was taken during the months of June, July and September, 1924, when the sterling dollar exchange was still at a discount of 10 to 12 per cent., but we heard the Governor of the Bank of England a second time on the 28th January, 1925.

On accepting office as Secretary of State for Foreign Affairs, Mr. Chamberlain ceased to act as a member of the Committee. Sir John (now Lord) Bradbury took the chair at the remaining meetings.

The Cunliffe Committee's Recommendation.

4. The natural starting point of our enquiry was the recommendation of the Committee on Currency and Foreign Exchanges after the War (the Cunliffe Committee), that the Currency Note Issue should be transferred to the Bank of England when it had been ascertained, from experience in a free gold export market, what fiduciary issue is compatible with the maintenance of a central gold reserve of £150,000,000.

5. These conditions have not yet been fulfilled, and we have found it necessary to enter somewhat fully into the questions whether a return to the gold standard on the basis of the pre-war sovereign is, in present circumstances, no less desirable than at the time of the Cunliffe Committee's Report; and if so, how and when the steps required to achieve it should be taken.

The Gold Standard.

6. The alternatives are—

(*a.*) To return to the gold standard on the basis of a devalued sovereign, *i.e.*, the re-establishment of a free gold market with a unit identical in name but of a lesser gold content than the pre-war unit, and

(*b.*) To attempt to find a basis for the currency unit other than gold.

7. The former need not, now that the current exchange rates are already within a small percentage of the pre-war parity, be seriously considered. It was never, in our opinion, a policy which the United Kingdom could have adopted.

8. The latter, in the form of proposals for substituting the price level of commodities in general for gold as the regulating principle of the currency, has been fully and carefully explained in evidence before us. We need not here set out the arguments by which it is supported, which have been published and are now well known. We need only say that, as a practical present-day policy for this country, there is, in our opinion, no alternative comparable with a return to the former gold parity of the sovereign. In this conclusion we are supported by the overwhelming majority of opinion, both financial and industrial, represented in evidence before us.

9. Starting from this fundamental position, we propose to confine ourselves to answering the questions when and how this restoration is to be brought about.

10. When we first began to consider our Report in September last, the ruling rates of exchange on New York were still 10 to 12 per cent. below gold parity, and there was some anxiety whether

the normal autumn pressure would not result in a renewed depreciation of the pound, and whether the limitation on the amount of the fiduciary issue of currency notes prescribed by the Treasury Minute of the 15th December, 1919, could be maintained over Christmas without giving rise to conditions necessitating a sharp rise of money rates.

11. We entertained no doubt, however, even at that time, of the ability of Great Britain, notwithstanding the fact that her international financial situation is in some respects less satisfactory than it was before the war, to restore and maintain the gold standard at the pre-war parity, at any time it might be thought prudent to do so.

12. In spite of the special influences which have, during the last few years, exercised an adverse influence (of which the principal are industrial stagnation and the disturbance of international trade resulting from post-war conditions, and the fact that we are paying interest and sinking fund on our war debt to America without as yet receiving an adequate counterpart from our Continental debtors), our existing volume of exports, visible and invisible, together with the income we derive from foreign investments is still undoubtedly sufficient to meet our foreign debts and pay for our necessary imports, and even to supply a moderate balance for new foreign investment.

13. In these circumstances a free gold market could readily be established and maintained at the pre-war parity, provided that by control of credit we adjusted the internal purchasing power of the pound to its exchange parity, and restricted our foreign investments to our normal export surplus.

14. Further, we were satisfied that the mere announcement that the power to prohibit the export of gold would not be continued beyond the 31st December, 1925, would automatically and rapidly bring about the credit conditions necessary to effect these adjustments, and that the effective gold standard could thus be restored without further danger or inconvenience than that which is inevitable in any period of credit restriction and falling prices.

15. At that time the British and American price levels appeared on the surface—though it is not safe to attempt to draw precise conclusions from a comparison of index figures compiled on different bases—to be fairly well adjusted to the current rate of exchange; and it was, therefore, to be expected that a fall in sterling prices of some 10 or 12 per cent., or a similar rise in dollar prices, would have had to take place before equilibrium could be secured with the exchanges at the pre-war parity.

16. The problem as it then presented itself was whether the undoubted advantages of an immediate return to parity were a sufficient compensation for the inconveniences—temporary though possibly severe while they lasted—of the measure of ' deflation ' necessary to bring about the adjustment, or whether it would not be more prudent to pursue, at least for a few months longer, a waiting policy in the hope that the disparity would disappear through a rise in American prices (of the probability of which there appeared to be indications).

17. Our provisional conclusion was that the return to parity and resumption of the free gold market, though it ought not to be much longer deferred, could not be regarded as a matter of such extreme urgency as to justify a credit policy calculated to bring down domestic prices if the same practical result could reasonably be expected to be attained within a very few months by a policy designed merely to prevent them from rising concurrently with a rise elsewhere.

18. The favourable course since September of the dollar exchange (which now stands only $1\frac{1}{2}$ per cent. below gold parity) and the fact that the restrictions on the fiduciary issue of currency notes have been maintained without inconvenience have, however, altered the situation. Indeed, if British domestic prices had already adjusted themselves to the improved exchange value of sterling, the problem would have been solved and we are satisfied that the free export of gold could have been resumed forthwith without danger either of appreciable depletion of our existing gold reserves or of making recourse necessary to any special measures in restriction of credit.

19. The discrepancy between British and American gold prices which existed in September has not, however, disappeared, though it has been reduced. We must still be prepared to face a fall in the final price level here of a significant, though not very large, amount, unless it should happen that a corresponding rise takes place in America, if the rate of exchange is to be restored to and held at the pre-war parity.

20. In present conditions, however, this argument against immediate action has not, in our opinion, great weight. For the adjustment of price levels required to restore and maintain pre-war parity needs to be only some $1\frac{1}{2}$ per cent. larger than that required to hold the exchange at its present rate. If the adjustment of price levels necessary to this end is long deferred, the exchange will inevitably fall back to the rate justified by the comparative price levels—or below it, since the psychological causes which have operated to force it up will tend to act in the other direction—and a period of fluctuating values is likely to ensue. To allow the exchange to fall back now with the certainty of having later on to raise it again would be a short-sighted policy, injurious to trade and industry. But, if this view is accepted and we are prepared to face any price adjustment which may be necessary to maintain the present exchange rate, there is nothing to be said for refusing to accept the very small ($1\frac{1}{2}$ per cent.) extra adjustment involved in the re-establishment of an effective gold standard.

21. The attitude of the Dominions and foreign countries towards the question of an early return to the gold standard is also a material consideration. The Union of South Africa has already decided to take the step in the course of this summer. Other Dominions will undoubtedly follow our lead and may if we delay precede us. The same is true of Holland and Switzerland and possibly other European countries. Although the convertibility of the new German currency into gold is under existing legislation suspended, a high degree of stability has been attained and the establishment of the full gold standard—effectively and even formally—may take place in the early future.

22. Economic conditions in America give promise of a period of financial stability, thus reducing the risk of dangerous reactions during the initial months of a free gold market; and prevailing sentiment there would be likely to be helpful.

23. We therefore recommend that the early return to the gold basis should forthwith be declared to be the irrevocable policy of His Majesty's Government and that it should be definitely stated that the existing restrictions on the export of gold, which expire on the 31st December next, will not be renewed. A general licence should at the same time be given to export gold sold by the Bank for export and the Bank should between now and the date of expiry of the export prohibition avail themselves freely of it whenever the exchange is below the normal export specie point, making good any consequential drafts upon the reserve in the Banking Department in accordance with traditional practice. As from the date of the announcement until such time as the arrangements governing the fiduciary issue can be put on a permanent basis, the existing limitation of that issue should be strictly maintained.

24. We are satisfied that this policy can, given the loyal co-operation of the principal British Institutions which control the supply of credit, be carried through without risk by the Bank of England without external assistance. Indeed such assistance, if it took the form of foreign credits to be used on any considerable scale to mitigate the effect of the policy upon credit conditions in the United Kingdom, would really serve to counteract the very forces on the operation of which we rely for its success.

25. On the other hand, the existence of a substantial American credit known to be available for use in sudden emergencies would tend to discourage speculation and contribute to the creation of a general atmosphere of confidence favourable to the smooth working of the operation.

26. The appreciation of sterling which has taken place since November, 1924, has been due partly to the belief that an effective gold standard will shortly be restored in this country, and only

partly to a lessening of the difference between the purchasing power of sterling and of gold.

27. Insofar as this confidence in the future of sterling has allowed the resumption of those normal operations between New York and London which had been interrupted by political uncertainty and distrust in the preceding 12 months, no reactionary consequences are to be feared.

28. There has, however, undoubtedly been a considerable element of speculation in connection with that movement, the extent of which cannot be exactly determined. To this unknown extent there may be a tendency, when parity has been reached, for realisation of the speculative positions to throw a concentrated strain on the exchange.

29. The proper safeguard against such a danger is in the size of the gold reserves and in the resolute use of these reserves (if required) for the purposes for which they have been accumulated.

30. We believe that the existing gold reserves are amply sufficient for this purpose, and that a conviction that there will be no hesitation in using them, even though this may involve a temporary increase in Bank Rate, will go far to obviate the danger we refer to. If, however, it is thought necessary to make assurance doubly sure by the provision of a gold credit, we feel strongly that recourse should not be made to it unless and until substantial gold exports have taken place and are already producing their normal effects on the monetary situation at home, and in the event of the credit being actually drawn upon, the amount drawn should, until it has been repaid, be treated from the point of view of the Bank of England's monetary policy as equivalent to a corresponding loss from its own reserves.

31. Unless these precautions are taken, borrowing abroad will, as has again and again happened when it has been resorted to as a remedy for exchange difficulties, merely aggravate the mischief which it has been applied to cure.

32. In making these observations and suggesting these precautions, we must not be understood as anticipating that either the

steps which we propose should be taken at once to prepare the way for the return to a free gold market at the end of the year or the actual return on that date may be expected to lead either to a heavy loss of gold or to a serious consequential restriction of domestic credit. British experience of the restoration of the gold standard after the French wars, 100 years ago, and the recent experience of continental countries which have taken steps, under far more difficult conditions, to rehabilitate their currencies, have shown that a courageous policy in currency matters surmounts apparently formidable obstacles with surprising ease. We believe that on this point history will repeat itself. It is possible that some temporary increase in money rates will be necessary to bring about the necessary adjustment of sterling prices to the gold level. We are satisfied, however, that the assimilation of British currency to the gold currencies of the world is so necessary for the ultimate prosperity of British trade that any temporary disadvantage, if such arise, from the measures necessary to maintain parity will be many times outweighed.

33. Indeed, such credit restriction as may become necessary to adjust the general level of sterling prices to a free gold market may well be less drastic than that which would be required in order to maintain a ' managed ' pound in the neighbourhood of parity. If the gold standard is firmly re-established, the danger of apprehensions as to the future of exchange leading to sudden withdrawals of foreign balances or foreign investment money will be eliminated, and the risk—inevitable under the present régime —of excessive British lending to foreign countries will be reduced.

34. With a free gold market, any tendency to lend abroad more than we can afford leads to a drain of gold, which, unless redressed by the sale of existing foreign investments, reacts on the general credit situation in London in such a way as to put a stop to new foreign borrowing.

35. Under existing conditions the result of excessive lending to foreign countries, instead of giving an immediate danger signal through its effect on the gold reserves, is more obscurely reflected in the general disturbance of the exchanges.

36. We are of opinion that unless a free gold market is restored, the danger of such overlending on foreign account in the near future will be considerable and a situation may easily develop in which the pressure on our foreign exchanges, resulting from overlending to foreign countries, will necessitate a restriction of general credit.

The Amalgamation of the Note Issues.

37. We return now to the recommendation of the Cunliffe Committee with respect to the amalgamation of the note issues. We have to consider whether the assumption by the Bank of England of the Currency Note Issue must await the experience of the problem of maintaining a minimum gold reserve, whether of £150,000,000 as recommended by the Cunliffe Committee, or of some other figure.

38. It is clear that throughout their Report the Cunliffe Committee contemplated a much earlier removal of the prohibition of gold exports than has actually been deemed expedient, and suggestions have been made to us that the amalgamation of the issues should precede instead of following the restoration of the free gold market, with a view to indicating that the policy of the Government is to restore parity and for the sake of the effect of such an indication upon the foreign exchanges.

39. If our recommendation in regard to the non-renewal of the prohibition of gold exports is adopted, the arguments for altering the sequence of events proposed by the Cunliffe Committee cease to operate and the precise date of amalgamation loses most of its importance. We associate ourselves with the decided preference expressed by the Cunliffe Committee for the principle of a fixed fiduciary issue, and it is as true to-day as five years ago that the permanent fiduciary issue cannot be fixed, except with reference to the actual conditions of a free gold market. It is hardly more feasible to legislate for a progressive reduction to the final figure by definite stages, at any of which the process may be subjected to unforeseen disturbances. The Treasury cannot escape from the responsibility for the existing issue; we doubt whether the Bank would accept it, until the time when effective control can also be given to them.

40. In this connection we think it necessary to observe that the ultimate dimensions both of the central gold reserve and of the fiduciary issue must be to some extent dependent on whether, after the restoration of the gold standard, gold is or is not largely used for internal circulation.

41. The figure of £150,000,000 suggested for the gold reserve by the Cunliffe Committee is based on the assumption that it will not be so used. If it were, a lower figure would suffice, regard being had to the value of gold in circulation as an emergency reserve, as was demonstrated in 1914. On the other hand, the total note circulation would be *pro tanto* reduced and the fiduciary portion would have to be smaller, both absolutely and proportionally than if there were no gold in circulation.

42. Any considerable flow of gold into domestic circulation would thus necessitate imports of the metal which would place an unnecessary burden on our foreign exchanges in a very difficult period.

43. We are of opinion that the use of gold for domestic circulation is a luxury which can well be dispensed with, and which we are in fact, at any rate during the next few years, not likely to be able to afford.

44. The payment of notes in gold coin upon demand is not in itself essential to the maintenance of the gold standard under modern conditions. An obligation upon the Bank of Issue to buy and sell gold at a fixed price is all that is necessary, and if in fact specie payments had been suspended during the war, we should not have recommended their resumption.

45. We should be glad, though mainly for historical and sentimental reasons, to make no formal change in the existing position under which gold coin is still legally obtainable for notes, and we think that the national habit of using paper currency, now firmly established, may suffice to prevent the absorption of any appreciable quantities of gold into domestic circulation, provided that the Joint Stock Banks are able to assist such a policy by undertaking to abstain from asking for gold coin in exchange for notes either for themselves or for their customers, and from holding

gold themselves, and in general by actively discouraging the use of gold among their customers.

46. If, however, there is any doubt whether this will be effective, then we are decidedly of opinion that steps must be taken forthwith by legislative enactment to prevent the internal circulation of gold coin, until such time as the gold standard has been firmly re-established for the purposes of international transactions.

47. We think that, in any circumstances, all Bank of England notes, including the £1 and 10*s*. notes ultimately to be substituted for currency notes, should in future be payable in coin only at the Head Office of the Bank, and not at the Branch offices.

48. In any case the coinage of standard half-sovereigns should not be resumed.

49. Subject to this observation, we recommend that the policy with regard to the transfer of the Currency Note issue to the Bank of England should remain as recommended by the Cunliffe Committee. We should mention that the machinery of issue by the Bank of England of £1 and 10*s*. Bank of England notes cannot be improvised at short notice. We understand that if the Bank is to print its own notes at least a year will be required to set up the necessary organisation, and this must be borne in mind in order that sufficient notice may be given to the Bank. As soon as parity is restored we recommend that the Bank be authorised to begin the provision of this machinery. Legislation would also be required to enable the Bank to issue notes below £5, and to make those notes legal tender.

50. We anticipate that if the free gold market is restored at the end of 1925, the experience necessary to enable the amount of the fiduciary issue to be definitely fixed will have been obtained by the end of 1927. The transfer of the issue could then take place early in 1928. But it may well be possible to accelerate these dates in the light of experience.

February 5, 1925.

BRADBURY.
GASPARD FARRER.
O. E. NIEMEYER.
A. C. PIGOU.

N. E. YOUNG,
Secretary.

THE GOLD STANDARD ACT, 1925.

15 & 16 GEO. V, c. 29

An Act to facilitate the return to a gold standard and for purposes connected therewith.

(13th May 1925.)

BE it enacted by the King's most Excellent Majesty by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1.—(1) Unless and until His Majesty by Proclamation otherwise directs—

(*a*) The Bank of England, notwithstanding anything in any Act, shall not be bound to pay any note of the Bank (in this Act referred to as 'a bank note') in legal coin within the meaning of section six of the Bank of England Act, 1833, and bank notes shall not cease to be legal tender by reason that the Bank do not continue to pay bank notes in such legal coin;

(*b*) Sub-section (3) of section one of the Currency and Bank Notes Act, 1914 (which provides that the holder of a currency note shall be entitled to obtain payment for the note at its face value in gold coin) shall cease to have effect;

(*c*) Section eight of the Coinage Act, 1870, (which entitles any person bringing gold bullion to the Mint to have it assayed, coined and delivered to him) shall, except as respects gold bullion brought to the Mint by the Bank of England, cease to have effect.

(2) So long as the preceding subsection remains in force, the Bank of England shall be bound to sell to any person who makes a demand in that behalf at the head office of the Bank during the office hours of the Bank, and pays the purchase price in any legal tender, gold bullion at the price of three pounds, seventeen shillings and tenpence halfpenny per ounce troy of gold of the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars containing approximately four hundred ounces troy of fine gold.

2.—(1) Any money required for the purpose of exchange operations in connection with the return to a gold standard may be raised within two years after the passing of this Act in such manner as the Treasury think fit, and for that purpose they may create and issue, either within or without the United Kingdom and either in British or in any other currency, such securities bearing such rate of interest and subject to such conditions as to repayment, redemption or otherwise as they think fit, and may guarantee in such manner and on such terms and conditions as they think proper the payment of interest and principal of any loan which may be raised for such purpose as aforesaid:

Provided that any securities created or issued under this section shall be redeemed within two years of the date of their issue, and no guarantee shall be given under this section so as to be in force after two years from the date upon which it is given.

(2) The principal and interest of any money raised under this Act, and any sums payable by the Treasury in fulfilling any guarantee given under this Act, together with any expenses incurred by the Treasury in connection with, or with a view to the exercise of, their powers under this section shall be charged on the Consolidated Fund of the United Kingdom or the growing produce thereof.

(3) Where by any Appropriation Act passed after the commencement of this Act power is conferred on the Treasury to borrow money up to a specified amount, any sums which may at the time of the passing of that Act have been borrowed or guaranteed by the Treasury in pursuance of this section and are then outstanding shall be treated as having been raised in exercise of the power conferred by the said Appropriation Act and the amount which may be borrowed under that Act shall be reduced accordingly.

3. This Act may be cited as the Gold Standard Act, 1925.

CURRENCY AND BANK NOTES ACT, 1928

[18 & 19 GEO. 5. CH. 13.]

An Act to amend the law relating to the issue of bank notes by the Bank of England and by banks in Scotland and Northern Ireland, and to provide for the transfer to the Bank of England of the currency notes issue and of the assets appropriated for the redemption thereof, and to make certain provisions with respect to gold reserves and otherwise in connection with the matters aforesaid and to prevent the defacement of bank notes. (2nd July 1928.)

BE it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1.—(1) Notwithstanding anything in any Act—

(*a*) the Bank may issue bank notes for one pound and for ten shillings:

(*b*) any such bank notes may be issued at any place out of London without being made payable at that place, and wherever issued shall be payable only at the head office of the Bank:

(*c*) any such bank notes may be put into circulation in Scotland and Northern Ireland, and shall be current and legal tender in Scotland and Northern Ireland as in England.

(2) Section six of the Bank of England Act, 1833 (which provides that bank notes shall be legal tender), shall have effect as if for the words 'shall be a legal tender to the amount expressed in 'such note or notes and shall be taken to be valid as a tender to 'such amount for all sums above five pounds on all occasions on 'which any tender of money may be legally made' there were substituted the words 'shall be legal tender for the payment of any amount'.

(3) The following provisions shall have effect so long as sub-

section (1) of section one of the Gold Standard Act, 1925, remains in force—

(*a*) notwithstanding anything in the proviso to section six of the Bank of England Act, 1833, bank notes for one pound or ten shillings shall be deemed a legal tender of payment by the Bank or any branch of the Bank, including payment of bank notes:

(*b*) the holders of bank notes for five pounds and upwards shall be entitled, on a demand made at any time during office hours at the head office of the Bank or, in the case of notes payable at a branch of the Bank, either at the head office or at that branch, to require in exchange for the said bank notes for five pounds and upwards bank notes for one pound or ten shillings.

(4) The Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast Gazettes, to call in the bank notes for one pound or ten shillings of any series on exchanging them for bank notes of the same value of a new series.

(5) Notwithstanding anything in section eight of the Truck Act, 1831, the payment of wages in bank notes of one pound or ten shillings shall be valid, whether the workman does or does not consent thereto.

2.—(1) Subject to the provisions of this Act the Bank shall issue bank notes up to the amount representing the gold coin and gold bullion for the time being in the issue department, and shall in addition issue bank notes to the amount of two hundred and sixty million pounds in excess of the amount first mentioned in this section, and the issue of notes which the Bank are by or under this Act required or authorised to make in excess of the said first mentioned amount is in this Act referred to as 'the fiduciary note issue'.

(2) The Treasury may at any time on being requested by the Bank, direct that the amount of the fiduciary note issue shall for such period as may be determined by the Treasury, after consultation with the Bank, be reduced by such amount as may be so determined.

3.—(1) In addition to the gold coin and bullion for the time being in the issue department, the Bank shall from time to time appropriate to and hold in the issue department securities of an amount in value sufficient to cover the fiduciary note issue for the time being.

(2) The securities to be held as aforesaid may include silver coin to an amount not exceeding five and one-half million pounds.

(3) The Bank shall from time to time give to the Treasury such information as the Treasury may require with respect to the securities held in the issue department, but shall not be required to include any of the said securities in the account to be taken pursuant to section five of the Bank of England Act, 1819.

4.—(1) As from the appointed day all currency notes issued under the Currency and Bank Notes Act, 1914, certified by the Treasury to be outstanding on that date (including currency notes covered by certificates issued to any persons under section two of the Currency and Bank Notes (Amendment) Act, 1914, but not including currency notes called in but not cancelled) shall, for the purpose of the enactments relating to bank notes and the issue thereof (including this Act) be deemed to be bank notes, and the Bank shall be liable in respect thereof accordingly.

(2) The currency notes to which subsection (1) of this section applies are in this Act referred to as ' the transferred currency notes '.

(3) At any time after the appointed day, the Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast Gazettes, to call in the transferred currency notes on exchanging them for bank notes of the same value.

(4) Any currency notes called in but not cancelled before the appointed day may be exchanged for bank notes of the same value.

5.—(1) On the appointed day, in consideration of the Bank undertaking liability in respect of the transferred currency notes, all the assets of the Currency Note Redemption Account other than Government securities shall be transferred to the issue department, and there shall also be transferred to the issue department out of the said assets Government securities of such an

amount in value as will together with the other assets to be transferred as aforesaid represent in the aggregate the amount of the transferred currency notes.

For the purpose of this subsection the value of any marketable Government securities shall be taken to be their market price as on the appointed day less the accrued interest, if any, included in that price.

(2) Any bank notes transferred to the Bank under this section shall be cancelled.

(3) Such of the said Government securities as are not transferred to the Bank under the foregoing provisions of this section shall be realised and the amount realised shall be paid into the Exchequer at such time and in such manner as the Treasury direct.

6.—(1) The Bank shall, at such times and in such manner as may be agreed between the Treasury and the Bank, pay to the Treasury an amount equal to the profits arising in respect of each year in the issue department, including the amount of any bank notes written off under section six of the Bank Act, 1892, as amended by this Act, but less the amount of any bank notes so written off which have been presented for payment during the year and the amount of any currency notes called in but not cancelled before the appointed day which have been so presented.

(2) For the purposes of this section the amount of the profits arising in any year in the issue department shall, subject as aforesaid, be ascertained in such manner as may be agreed between the Bank and Treasury.

(3) For the purposes of the Income Tax Acts, any income of, or attributable to, the issue department shall be deemed to be income of the Exchequer, and any expenses of, or attributable to, the issue department shall be deemed not to be expenses of the Bank.

(4) The Bank shall cease to be liable to make any payment in consideration of their exemption from stamp duty on bank notes.

7. Section six of the Bank Act, 1892, (which authorises the writing off of bank notes which are not presented for payment within forty years of the date of issue), shall have effect as if, in

the case of notes for one pound or ten shillings, twenty years were substituted for forty years, and as if, in the case of any such notes being transferred currency notes, they had been issued on the appointed day and, in the case of any such notes not being transferred currency notes, they had been issued on the last day on which notes of the particular series of which they formed part were issued by the Bank.

8.—(1) If the Bank at any time represent to the Treasury that it is expedient that the amount of the fiduciary note issue shall be increased to some specified amount above two hundred and sixty million pounds, the Treasury may authorise the Bank to issue bank notes to such an increased amount, not exceeding the amount specified as aforesaid, and for such period, not exceeding six months, as the Treasury think proper.

(2) Any authority so given may be renewed or varied from time to time on the like representation and in like manner:

Provided that, notwithstanding the foregoing provision, no such authority shall be renewed so as to remain in force (whether with or without variation) after the expiration of a period of two years from the date on which it was originally given, unless Parliament otherwise determines.

(3) Any minute of the Treasury authorising an increase of the fiduciary note issue under this section shall be laid forthwith before both Houses of Parliament.

9.—(1) For the purpose of any enactment which in the case of a bank in Scotland or Northern Ireland limits by reference to the amount of gold and silver coin held by any such bank the amount of the notes which that bank may have in circulation, bank notes held by that bank or by the Bank on account of that bank, shall be treated as being gold coin held by that bank.

(2) A bank in Scotland or Northern Ireland may hold the coin and bank notes by reference to which the amount of the bank notes which it is entitled to have in circulation is limited at such of its offices in Scotland or Northern Ireland, respectively, not exceeding two, as may from time to time be approved by the Treasury.

10. The form prescribed by Schedule A to the Bank Charter Act, 1844, for the account to be issued weekly by the Bank under section six of that Act may be modified to such an extent as the Treasury, with the concurrence of the Bank, consider necessary, having regard to the provisions of this Act.

11.—(1) With a view to the concentration of the gold reserves and to the securing of economy in the use of gold, the following provisions of this section shall have effect so long as subsection (1) of section one of the Gold Standard Act, 1925, remains in force.

(2) Any person in the United Kingdom owning any gold coin or bullion to an amount exceeding ten thousand pounds in value shall, on being required so to do by notice in writing from the Bank, forthwith furnish to the Bank in writing particulars of the gold coin and bullion owned by that person, and shall, if so required by the Bank, sell to the Bank the whole or any part of the said coin or bullion, other than any part thereof which is bonâ fide held for immediate export or which is bonâ fide required for industrial purposes, on payment therefor by the Bank, in the case of coin, of the nominal value thereof, and in the case of bullion, at the rate fixed in section four of the Bank Charter Act, 1844.

12. If any person prints, or stamps, or by any like means impresses, on any bank note any words, letters or figures, he shall, in respect of each offence, be liable on summary conviction to a penalty not exceeding one pound.

13.—(1) This Act may be cited as the Currency and Bank Notes Act, 1928.

(2) This Act shall come into operation on the appointed day, and the appointed day shall be such day as His Majesty may by Order in Council appoint, and different days may be appointed for different purposes and for different provisions of this Act.

(3) In this Act, unless the context otherwise requires,—

The expression ' the Bank ' means the Bank of England:

The expression ' issue department ' means the issue department of the Bank:

The expression ' bank note ' means a note of the Bank:

The expression ' coin ' means coin which is current and legal tender in the United Kingdom:

The expression ' bullion ' includes any coin which is not current and legal tender in the United Kingdom.

(4) The enactments set out in the Schedule to this Act are hereby repealed to the extent specified in the third column of that Schedule.

SCHEDULE

Enactments Repealed.

Session and Chapter.	Short Title.	Extent of Repeal.
7 & 8 Vict. c. 32.	The Bank Charter Act, 1844.	Sections two, three, five and nine, in section eleven the words from ' save and except that ' to the end of the section, sections thirteen to twenty, and section twenty-two, and, so far as relates to England, sections ten and twelve.
24 & 25 Vict. c. 3.	Bank of England Act, 1861.	Section four, so far as unrepealed.
4 & 5 Geo. 5. c. 14.	The Currency and Bank Notes Act, 1914.	The whole Act, except subsection (5) of section one and section five.
4 & 5 Geo. 5. c. 72.	The Currency and Bank Notes (Amendment) Act, 1914.	The whole Act.
5 & 6 Geo. 5. c. 62.	The Finance Act, 1915.	Section twenty-seven.
15 & 16 Geo. 5. c. 29.	The Gold Standard Act, 1925.	Paragraph (*b*) of subsection (1) of section one.

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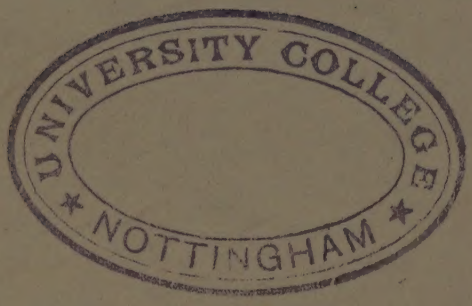
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